

Report on the

# Cullman County Commission

Cullman County, Alabama

October 1, 2015 through September 30, 2016

Filed: June 1, 2018



## Department of Examiners of Public Accounts

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*Rachel Laurie Riddle, Chief Examiner*





State of Alabama  
Department of  
**Examiners of Public Accounts**

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Rachel Laurie Riddle  
Chief Examiner

Honorable Rachel Laurie Riddle  
Chief Examiner of Public Accounts  
Montgomery, Alabama 36130

Dear Madam:

Under the authority of the *Code of Alabama 1975*, Section 41-5A-19, as added by Act Number 2018-129, we submit this report on the results of the audit of the Cullman County Commission, Cullman County, Alabama, for the period October 1, 2015 through September 30, 2016.

Sworn to and subscribed before me this  
the 1<sup>st</sup> day of May, 2018.

Mary Kinbraugh  
Notary Public

Sworn to and subscribed before me this  
the 4<sup>th</sup> day of May, 2018.

Debra A. Jurely  
Notary Public

Sworn to and subscribed before me this  
the 4<sup>th</sup> day of May, 2018.

Debra A. Jurely  
Notary Public

Respectfully submitted,

Denise H. Olive

Denise H. Olive  
Examiner of Public Accounts

April S Purser

April S. Purser  
Examiner of Public Accounts

Kimberly Swafford

Kimberly Swafford  
Examiner of Public Accounts

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## *Table of Contents*

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	<i>Page</i>
<b>Summary</b>	A
Contains items pertaining to federal, state and local legal compliance, Commission operations and other matters.	
<b>Independent Auditor's Report</b>	B
Reports on whether the financial information constitutes a fair presentation of the financial position and results of financial operations in accordance with generally accepted accounting principles (GAAP).	
<b><u>Basic Financial Statements</u></b>	1
Provides the minimum combination of financial statements and notes to the financial statements that is required for the fair presentation of the Commission's financial position and results of operations in accordance with GAAP.	
Exhibit #1     Statement of Net Position	2
Exhibit #2     Statement of Activities	4
Exhibit #3     Balance Sheet – Governmental Funds	6
Exhibit #4     Reconciliation of the Balance Sheet of Governmental Funds to the Statement of Net Position	8
Exhibit #5     Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds	9
Exhibit #6     Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities	11
Exhibit #7     Statement of Net Position – Proprietary Funds	12
Exhibit #8     Statement of Revenues, Expenses and Changes in Fund Net Position – Proprietary Funds	16
Exhibit #9     Statement of Cash Flows – Proprietary Funds	18
Exhibit #10    Statement of Fiduciary Net Position	22
Exhibit #11    Statement of Changes in Fiduciary Net Position	23



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## *Table of Contents*

---

---

	<i>Page</i>
<b>Notes to the Financial Statements</b>	24
<b><u>Required Supplementary Information</u></b>	59
Provides information required by the Governmental Accounting Standards Board (GASB) to supplement the basic financial statements. This information has not been audited and no opinion is provided about the information.	
Exhibit #12    Schedule of Changes in the Net Pension Liability	60
Exhibit #13    Schedule of the Employer’s Contributions	61
Exhibit #14    Schedule of Revenues, Expenditures and Changes in Fund Balances – Budget and Actual – General Fund	62
Exhibit #15    Schedule of Revenues, Expenditures and Changes in Fund Balances – Budget and Actual – Gasoline Tax Fund	66
Exhibit #16    Schedule of Revenues, Expenditures and Changes in Fund Balances – Budget and Actual – Reappraisal Fund	70
Exhibit #17    Schedule of Funding Progress – Other Postemployment Benefits	72
<b><u>Supplementary Information</u></b>	73
Contains financial information and notes relative to federal financial assistance.	
Exhibit #18    Schedule of Expenditures of Federal Awards	74
<b>Notes to the Schedule of Expenditures of Federal Awards</b>	78
<b><u>Additional Information</u></b>	79
Provides basic information related to the Commission, including reports and items required by generally accepted government auditing standards and/or Title 2 U. S. <i>Code of Federal Regulations</i> Part 200, <i>Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance)</i> and U. S. Office of Management and Budget (OMB) Circular A-133 for federal compliance audits.	
Exhibit #19 <b>Commission Members and Administrative Personnel</b> – a listing of the Commission members and administrative personnel.	80





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## *Table of Contents*

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	<i>Page</i>
Exhibit #20 <b>Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With <i>Government Auditing Standards</i></b> – a report on internal controls related to the financial statements and on whether the Commission complied with laws and regulations which could have a direct and material effect on the Commission’s financial statements.	81
Exhibit #21 <b>Report on Compliance for Each Major Federal Program and Report on Internal Control Over Compliance Required by the <i>Uniform Guidance</i> and OMB Circular A-133</b> – a report on internal controls over compliance with requirements of federal statutes, regulations, and the terms and conditions of federal awards applicable to major federal programs and an opinion on whether the Commission complied with federal statutes, regulations, and the terms and conditions of its federal awards which could have a direct and material effect on each major program.	84
Exhibit #22 <b>Schedule of Findings and Questioned Costs</b> – a schedule summarizing the results of audit findings relating to the financial statements as required by <i>Government Auditing Standards</i> and findings and questioned costs for federal awards as required by the <i>Uniform Guidance</i> and OMB Circular A-133.	87

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Department of  
**Examiners of Public Accounts**

**SUMMARY**

**Cullman County Commission  
October 1, 2015 through September 30, 2016**

The Cullman County Commission (the “Commission”) is governed by a three-member body elected by the citizens of Cullman County. The members and administrative personnel in charge of governance of the Commission are listed in Exhibit 19. The Commission is the governmental agency that provides general administration, public safety, construction and maintenance of county roads and bridges, sanitation services, health and welfare services and educational services to the citizens of Cullman County.

This report presents the results of an audit the objectives of which were to determine whether the financial statements present fairly the financial position and results of financial operations and whether the Commission complied with applicable laws and regulations, including those applicable to its major federal financial assistance programs. The audit was conducted in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, as well as the requirements of the Department of Examiners of Public Accounts under the authority of the *Code of Alabama 1975*, Section 41-5A-12, as added by Act Number 2018-129.

An unmodified opinion was issued on the financial statements, which means that the Commission’s financial statements present fairly, in all material respects, its financial position and the results of its operations for the fiscal year ended September 30, 2016.

Tests performed during the audit did not disclose any significant instances of noncompliance with applicable state and local laws and regulations.

The following officials/administrative personnel were invited to an exit conference to discuss the contents of this report: Chairman of the Cullman County Commission: Kenneth Walker; Commission Members: Kerry Watson and Garry Marchman; and Administrator of the Cullman County Commission: Gary Teichmiller. The following individuals attended the exit conference, held at the offices of the Cullman County Commission: Kenneth Walker, Chairman, Kerry Watson, Commissioner, Gary Teichmiller, Administrator; and representatives from the Department of Examiners of Public Accounts: Denise H. Olive and Kimberly Swafford, Examiners of Public Accounts.

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*Independent Auditor's Report*

## **Independent Auditor's Report**

Members of the Cullman County Commission and County Administrator  
Cullman, Alabama

### **Report on the Financial Statements**

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Cullman County Commission, as of and for the year ended September 30, 2016, and the related notes to the financial statements, which collectively comprise the Cullman County Commission's basic financial statements as listed in the table of contents as Exhibits 1 through 11.

### **Management's Responsibility for the Financial Statements**

The management of the Cullman County Commission is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### **Auditor's Responsibility**

Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the Cullman County Water Fund, which represents 78%, 73%, and 62%, respectively, of the assets, net position, and revenues of the Enterprise Funds and business-type activities. Those statements were audited by other auditors whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for the Cullman County Water Fund, is based solely on the report of other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in ***Government Auditing Standards***, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

### Opinions

In our opinion based on our audit and the report of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Cullman County Commission, as of September 30, 2016, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

### Other Matters

#### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis (MD&A), the Schedule of Changes in the Net Pension Liability, the Schedule of the Employer's Contributions, the Schedules of Revenues, Expenditures, and Changes in Fund Balances – Budget and Actual, and the Schedule of Funding Progress, (Exhibits 12 through 17), be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We and other auditors have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

The Cullman County Commission has not presented a Management's Discussion and Analysis (MD&A) that the Governmental Accounting Standards Board has determined is necessary to supplement, although not required to be part of, the basic financial statements.

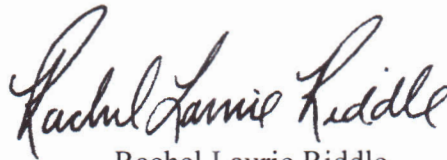
#### *Supplementary Information*

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Cullman County Commission's basic financial statements. The accompanying Schedule of Expenditures of Federal Awards (Exhibit 18), as required by Title 2 U. S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance)* and *OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations*, is presented for the purposes of additional analysis and is not a required part of the basic financial statements.

The Schedule of Expenditures of Federal Awards is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Schedule of Expenditures of Federal Awards is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

**Other Reporting Required by Government Auditing Standards**

In accordance with **Government Auditing Standards**, we have also issued our report dated April 27, 2018, on our consideration of the Cullman County Commission's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing on internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with **Government Auditing Standards** in considering the Cullman County Commission's internal control over financial reporting and compliance.



Rachel Laurie Riddle  
Chief Examiner

Department of Examiners of Public Accounts

Montgomery, Alabama

April 27, 2018



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# *Basic Financial Statements*

***Statement of Net Position***  
***September 30, 2016***

	Governmental Activities	Business-Type Activities	Totals
<b>Assets</b>			
<b>Current Assets</b>			
Cash and Cash Equivalents	\$ 11,211,639.03	\$ 4,425,416.44	\$ 15,637,055.47
Investments	4,720,704.95	573,194.03	5,293,898.98
Accounts Receivable	21,145.06	1,739,405.77	1,760,550.83
Property Taxes Receivable	8,366,950.00		8,366,950.00
Due from Other Governments	1,239,463.16		1,239,463.16
Sales Taxes Receivable	1,784,268.99		1,784,268.99
Inventories	304,573.23	665,559.00	970,132.23
Prepaid Items	5,612.51		5,612.51
Other Assets		25,586.00	25,586.00
Total Current Assets	27,654,356.93	7,429,161.24	35,083,518.17
<b>Noncurrent Assets</b>			
Restricted Cash and Cash Equivalents	285,213.47		285,213.47
Restricted Cash with Fiscal Agent		557,271.00	557,271.00
Other Noncurrent Assets		52,368.00	52,368.00
Net Investment in Joint Venture (Note 13)		3,166,587.00	3,166,587.00
Capital Assets (Note 4):			
Nondepreciable	23,566,485.41	3,045,044.61	26,611,530.02
Depreciable, Net	54,143,283.48	29,929,807.90	84,073,091.38
Total Noncurrent Assets	77,994,982.36	36,751,078.51	114,746,060.87
Total Assets	105,649,339.29	44,180,239.75	149,829,579.04
<b>Deferred Outflows of Resources</b>			
Debt Refunding		515,695.00	515,695.00
Employer Pension Contributions	1,128,988.00	290,427.55	1,419,415.55
Proportionate Share of Collective Deferred Outflows Related to Pension Liability	1,251,242.40	321,691.89	1,572,934.29
Total Deferred Outflows of Resources	\$ 2,380,230.40	\$ 1,127,814.44	\$ 3,508,044.84

The accompanying Notes to the Financial Statements are an integral part of this statement.

	Governmental Activities	Business-Type Activities	Totals
<b><u>Liabilities</u></b>			
<b><u>Current Liabilities</u></b>			
Accounts Payable	\$ 33,944.94	\$ 546,515.00	\$ 580,459.94
Due to Other Governments	128,073.04		128,073.04
Unearned Revenue	354,658.27		354,658.27
Accrued Wages Payable	844,254.00	205,833.58	1,050,087.58
Accrued Interest Payable	46,292.70	175,570.00	221,862.70
Estimated Liability for Claims Costs Payable	569,894.40		569,894.40
Other Current Liabilities		46,237.00	46,237.00
Long-Term Liabilities:			
Portion Due and Payable Within One Year:			
Warrants Payable	996,073.90	870,000.00	1,866,073.90
Plus: Unamortized Premium		28,169.40	28,169.40
Notes Payable	14,845.79		14,845.79
Estimated Liability for			
Compensated Absences	157,417.97	42,585.38	200,003.35
Total Current Liabilities	<u>3,145,455.01</u>	<u>1,914,910.36</u>	<u>5,060,365.37</u>
<b><u>Noncurrent Liabilities</u></b>			
Portion Due or Payable After One Year:			
Warrants Payable	5,746,771.22	13,680,000.00	19,426,771.22
Plus: Unamortized Premium		349,333.60	349,333.60
Notes Payable	183,483.04		183,483.04
Estimated Liability for			
Compensated Absences	1,416,761.69	394,352.42	1,811,114.11
Net Pension Liability	10,352,036.00	2,661,486.85	13,013,522.85
Other Post Employment Benefit Obligation	6,351,406.70	1,260,355.36	7,611,762.06
Total Noncurrent Liabilities	<u>24,050,458.65</u>	<u>18,345,528.23</u>	<u>42,395,986.88</u>
Total Liabilities	<u>27,195,913.66</u>	<u>20,260,438.59</u>	<u>47,456,352.25</u>
<b><u>Deferred Inflows of Resources</u></b>			
Unavailable Revenue - Property Taxes	8,366,950.00		8,366,950.00
Total Deferred Inflows of Resources	<u>8,366,950.00</u>		<u>8,366,950.00</u>
<b><u>Net Position</u></b>			
Net Investment in Capital Assets	70,768,594.94	18,387,474.51	89,156,069.45
Restricted for:			
Capital Projects	1,062,427.01		1,062,427.01
Debt Service	636,627.46	557,271.00	1,193,898.46
Highways and Roads	132,926.15		132,926.15
Other Purposes	3,209,198.30		3,209,198.30
Unrestricted	<u>(3,343,067.83)</u>	<u>6,102,870.09</u>	<u>2,759,802.26</u>
Total Net Position	<u>\$ 72,466,706.03</u>	<u>\$ 25,047,615.60</u>	<u>\$ 97,514,321.63</u>

**Statement of Activities**  
**For the Year Ended September 30, 2016**

Functions/Programs	Expenses	Program Revenues	
		Charges for Services	Operating Grants and Contributions
<b>Primary Government</b>			
<b>Governmental Activities</b>			
General Government	\$ 7,631,877.92	\$ 2,262,169.73	\$ 391,428.54
Public Safety	14,575,782.88	4,880,510.29	199,629.94
Highways and Roads	11,034,368.75	856,339.57	4,614,958.27
Health	497,485.88	212,965.55	
Welfare	2,431,030.61		751,874.03
Culture and Recreation	398,865.31		
Education	193,858.66		
Interest on Long-Term Debt	227,552.75		
Total Governmental Activities	36,990,822.75	8,211,985.14	5,957,890.78
<b>Business-Type Activities</b>			
Sanitation	5,246,559.52	5,101,573.75	
Other Enterprise Funds	2,306,609.49	1,296,882.42	
Water Sales	10,267,476.00	10,300,772.00	
Total Business-Type Activities	17,820,645.01	16,699,228.17	
Total Primary Government	\$ 54,811,467.76	\$ 24,911,213.31	\$ 5,957,890.78

**General Revenues:**

Taxes:  
Property Taxes for General Purposes  
Property Taxes for Specific Purposes  
County Sales and Use Taxes  
Other County Sales and Use Taxes  
Grants and Contributions Not Restricted  
for Specific Purposes  
TVA in Lieu of Taxes  
Interest Earned  
Gain/(Loss) on Disposition of Assets  
Miscellaneous  
Transfers  
Total General Revenues and Transfers

Change in Net Position

Net Position - Beginning of Year

Net Position - End of Year

The accompanying Notes to the Financial Statements are an integral part of this statement.

<b>Net (Expenses) Revenues and Changes in Net Position</b>			
<b>Primary Government</b>			
<b>Capital Grants and Contributions</b>	<b>Governmental Activities</b>	<b>Business-Type Activities</b>	<b>Total</b>
\$	\$	\$	\$
465,246.23	(4,978,279.65)		(4,978,279.65)
68,247.72	(9,030,396.42)		(9,030,396.42)
	(5,494,823.19)		(5,494,823.19)
	(284,520.33)		(284,520.33)
	(1,679,156.58)		(1,679,156.58)
	(398,865.31)		(398,865.31)
	(193,858.66)		(193,858.66)
	(227,552.75)		(227,552.75)
533,493.95	(22,287,452.88)		(22,287,452.88)
9,518.26		(135,467.51)	(135,467.51)
46,167.89		(963,559.18)	(963,559.18)
		33,296.00	33,296.00
55,686.15		(1,065,730.69)	(1,065,730.69)
\$ 589,180.10	(22,287,452.88)	(1,065,730.69)	(23,353,183.57)
	5,901,701.20		5,901,701.20
	3,316,661.26		3,316,661.26
	10,714,751.15		10,714,751.15
	493,977.88		493,977.88
	484,514.72		484,514.72
	2,755,819.60		2,755,819.60
	215,538.16	38,484.19	254,022.35
	225,163.32		225,163.32
	526,093.41	35,130.09	561,223.50
	(1,015,675.71)	1,015,675.71	
	23,618,544.99	1,089,289.99	24,707,834.98
	1,331,092.11	23,559.30	1,354,651.41
	71,135,613.92	25,024,056.30	96,159,670.22
\$	\$ 72,466,706.03	\$ 25,047,615.60	\$ 97,514,321.63

***Balance Sheet***  
***Governmental Funds***  
***September 30, 2016***

	General Fund	Gasoline Tax Fund
<b><u>Assets</u></b>		
Cash and Cash Equivalents	\$ 6,213,381.86	\$ 44,738.00
Investments	4,720,704.95	
Accounts Receivable		21,145.06
Property Taxes Receivable	6,664,000.00	
Due from Other Governments	640,826.81	264,943.59
Sales Taxes Receivable	1,511,657.10	272,611.89
Inventories		304,573.23
Prepaid Items	5,612.51	
Total Assets	<u>19,756,183.23</u>	<u>908,011.77</u>
<b><u>Liabilities Deferred Inflows of Resources and Fund Balances</u></b>		
<b><u>Liabilities</u></b>		
Accounts Payable		
Due to Other Governments	128,073.04	
Unearned Revenue		
Accrued Wages Payable	572,656.00	178,123.00
Claims Costs Payable	569,894.40	
Total Liabilities	<u>1,270,623.44</u>	<u>178,123.00</u>
<b><u>Deferred Inflows of Resources</u></b>		
Unavailable Revenue - Property Taxes	6,664,000.00	
Total Deferred Inflows of Resources	<u>6,664,000.00</u>	
<b><u>Fund Balances</u></b>		
Nonspendable:		
Inventories		304,573.23
Prepaid Items	5,612.51	
Restricted for:		
Debt Service		
Highways and Roads		
Capital Projects		
Other Purposes		
Assigned to:		
Highways and Roads		425,315.54
Other Purposes	35,372.53	
Unassigned	11,780,574.75	
Total Fund Balances	<u>11,821,559.79</u>	<u>729,888.77</u>
Total Liabilities, Deferred Inflows of Resources and Fund Balances	<u>\$ 19,756,183.23</u>	<u>\$ 908,011.77</u>

The accompanying Notes to the Financial Statements are an integral part of this statement.

Reappraisal Fund	Other Governmental Funds	Total Governmental Funds
\$ 408,783.27	\$ 4,829,949.37	\$ 11,496,852.50
		4,720,704.95
		21,145.06
1,702,950.00		8,366,950.00
	333,692.76	1,239,463.16
		1,784,268.99
		304,573.23
		5,612.51
<u>2,111,733.27</u>	<u>5,163,642.13</u>	<u>27,939,570.40</u>
	33,944.94	33,944.94
		128,073.04
354,658.27		354,658.27
54,125.00	39,350.00	844,254.00
		569,894.40
<u>408,783.27</u>	<u>73,294.94</u>	<u>1,930,824.65</u>
1,702,950.00		8,366,950.00
<u>1,702,950.00</u>		<u>8,366,950.00</u>
		304,573.23
		5,612.51
	682,920.16	682,920.16
	132,926.15	132,926.15
	1,062,427.01	1,062,427.01
	3,209,198.30	3,209,198.30
	2,875.57	428,191.11
		35,372.53
		11,780,574.75
	5,090,347.19	17,641,795.75
<u>\$ 2,111,733.27</u>	<u>\$ 5,163,642.13</u>	<u>\$ 27,939,570.40</u>

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***Reconciliation of the Balance Sheet of Governmental Funds to the Statement of Net Position***  
***September 30, 2016***

Total Fund Balances - Governmental Funds (Exhibit 3) \$ 17,641,795.75

Amounts reported for governmental activities in the Statement of Net Position (Exhibit 1) are different because:

Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in governmental funds. These assets consist of:

Land	\$ 23,566,485.41	
Infrastructure - Roads and Bridges	43,753,564.35	
Buildings	23,007,247.77	
Equipment	14,558,496.36	
Accumulated Depreciation	<u>(27,176,025.00)</u>	
		77,709,768.89

Deferred outflows of resources related to pensions are applicable to future periods and, therefore, are not reported in governmental funds.

Deferred outflows of resources related to pensions for the proportionate share of collective deferred inflows related to pension liability.	1,251,242.40
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Deferred outflows of resources related to pensions for employer contributions made subsequent to the measurement date.	1,128,988.00
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Certain liabilities are not due and payable in the current period and, therefore, are not reported as liabilities in the funds. These liabilities at year-end consist of:

	Due and Payable Within One Year	Due and Payable After One Year	
Warrants Payable	\$ 996,073.90	\$ 5,746,771.22	
Notes Payable	14,845.79	183,483.04	
Estimated Liability for Compensated Absences	157,417.97	1,416,761.69	
Accrued Interest Payable	46,292.70		
Net Pension Liability		10,352,036.00	
Other Post Employment Benefit Obligation		<u>6,351,406.70</u>	
Total Long-Term Liabilities	<u>\$ 1,214,630.36</u>	<u>\$ 24,050,458.65</u>	<u>(25,265,089.01)</u>

Total Net Position - Governmental Activities (Exhibit 1) \$ 72,466,706.03

The accompanying Notes to the Financial Statements are an integral part of this statement.

***Statement of Revenues, Expenditures and Changes in Fund Balances***  
***Governmental Funds***  
***For the Year Ended September 30, 2016***

	<b>General Fund</b>	<b>Gasoline Tax Fund</b>
<b><u>Revenues</u></b>		
Taxes	\$ 17,472,705.94	\$ 1,737,231.71
Licenses and Permits	84,395.67	
Intergovernmental	1,960,136.33	3,927,035.50
Charges for Services	2,709,884.91	856,339.57
Miscellaneous	1,012,479.34	10,200.37
Total Revenues	<u>23,239,602.19</u>	<u>6,530,807.15</u>
<b><u>Expenditures</u></b>		
Current:		
General Government	6,259,987.34	
Public Safety	10,892,493.33	
Highways and Roads		7,793,136.96
Health	482,907.78	
Welfare	855,245.40	
Culture and Recreation	331,430.65	
Education	193,858.66	
Capital Outlay	76,289.50	1,557,119.69
Debt Service:		
Principal Retirement		
Interest and Fiscal Charges		
Total Expenditures	<u>19,092,212.66</u>	<u>9,350,256.65</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>4,147,389.53</u>	<u>(2,819,449.50)</u>
<b><u>Other Financing Sources (Uses)</u></b>		
Transfers In		1,172,690.13
Proceeds from Sale or Disposal of Capital Assets	46,050.42	885,360.02
Transfers Out	(3,833,775.23)	
Total Other Financing Sources (Uses)	<u>(3,787,724.81)</u>	<u>2,058,050.15</u>
Net Change in Fund Balances	359,664.72	(761,399.35)
Fund Balances - Beginning of Year	<u>11,461,895.07</u>	<u>1,491,288.12</u>
Fund Balances - End of Year	<u>\$ 11,821,559.79</u>	<u>\$ 729,888.77</u>

The accompanying Notes to the Financial Statements are an integral part of this statement.

Reappraisal Fund	Other Governmental Funds	Total Governmental Funds
\$ 1,156,291.73	\$ 60,862.11	\$ 20,427,091.49
		84,395.67
	5,444,556.77	11,331,728.60
	1,060,308.54	4,626,533.02
1,315.08	1,549,006.90	2,573,001.69
1,157,606.81	8,114,734.32	39,042,750.47
1,157,606.81	75,351.00	7,492,945.15
	3,113,706.49	14,006,199.82
	2,333,252.82	10,126,389.78
		482,907.78
	1,226,651.08	2,081,896.48
	59,764.67	391,195.32
		193,858.66
	439,341.56	2,072,750.75
	960,721.38	960,721.38
	232,094.42	232,094.42
1,157,606.81	8,440,883.42	38,040,959.54
	(326,149.10)	1,001,790.93
	1,903,753.14	3,076,443.27
	5,650.88	937,061.32
	(258,343.75)	(4,092,118.98)
	1,651,060.27	(78,614.39)
	1,324,911.17	923,176.54
	3,765,436.02	16,718,619.21
\$	\$ 5,090,347.19	\$ 17,641,795.75

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***Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities For the Year Ended September 30, 2016***

Net Change in Fund Balances - Total Governmental Funds (Exhibit 5) \$ 923,176.54

Amounts reported for governmental activities in the Statement of Activities (Exhibit 2) are different because:

Governmental funds report capital outlays as expenditures. However, in the Statement of Activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which depreciation expense exceeded capital outlay expenditures in the current period.

Capital Outlay Expenditures	\$ 2,072,750.75	
Depreciation Expense	<u>(2,102,882.00)</u>	
Total		(30,131.25)

In the Statement of Activities, only the gain on the sale of capital assets is reported, whereas in the governmental funds, the proceeds from the sale increase financial resources. Thus the changes in net assets differs from the change in fund balance by the value of the capital assets sold.

Book Value of Assets Sold/Deleted		(642,221.22)
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Repayment of debt principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Position and does not affect the Statement of Activities. 960,721.38

Some items reported in the Statement of Activities do not require the use of current financial resources and, therefore, are not reported as expenditures in the governmental funds. These items consist of:

Net Increase in Other Post Employment Benefit Obligation	\$ (157,268.43)	
Net Decrease in Compensated Absences	152,896.62	
Net Decrease in Pension Expense	119,376.80	
Net Decrease in Accrued Interest Payable	<u>4,541.67</u>	
Total		<u>119,546.66</u>

Change in Net Position of Governmental Activities (Exhibit 2) \$ 1,331,092.11

The accompanying Notes to the Financial Statements are an integral part of this statement.

***Statement of Net Position***  
***Proprietary Funds***  
***September 30, 2016***

	<b>Major Funds</b>	
	<b>Sanitation Fund</b>	<b>Water Fund</b>
<b><u>Assets</u></b>		
<b><u>Current Assets</u></b>		
Cash and Cash Equivalents	\$ 816,970.11	\$ 3,463,870.00
Investments	573,194.03	
Accounts Receivable	182,714.77	1,556,691.00
Inventories		665,559.00
Other Assets		25,586.00
Total Current Assets	1,572,878.91	5,711,706.00
<b><u>Noncurrent Assets</u></b>		
Restricted Cash with Fiscal Agent		557,271.00
Other Noncurrent Assets		52,368.00
Net Investment in Joint Venture (Note 13)		
Capital Assets (Note 4):		
Nondepreciable	150,000.00	649,448.00
Depreciable, Net	1,752,305.45	27,537,790.00
Total Noncurrent Assets	1,902,305.45	28,796,877.00
Total Assets	3,475,184.36	34,508,583.00
<b><u>Deferred Outflows of Resources</u></b>		
Debt Refunding		515,695.00
Employer Pension Contributions	127,011.15	106,967.00
Proportionate Share of Collective Deferred Outflows Related to Net Pension Liability	140,764.77	118,365.00
Total Deferred Outflows of Resources	\$ 267,775.92	\$ 741,027.00

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Other Enterprise Funds	Total Enterprise Funds
\$ 144,576.33	\$ 4,425,416.44
	573,194.03
	1,739,405.77
	665,559.00
	25,586.00
<u>144,576.33</u>	<u>7,429,161.24</u>
	557,271.00
	52,368.00
3,166,587.00	3,166,587.00
2,245,596.61	3,045,044.61
639,712.45	29,929,807.90
<u>6,051,896.06</u>	<u>36,751,078.51</u>
<u>6,196,472.39</u>	<u>44,180,239.75</u>
	515,695.00
56,449.40	290,427.55
62,562.12	321,691.89
<u>\$ 119,011.52</u>	<u>\$ 1,127,814.44</u>

***Statement of Net Position***  
***Proprietary Funds***  
***September 30, 2016***

	<b>Major Funds</b>	
	<b>Sanitation Fund</b>	<b>Water Fund</b>
<b><u>Liabilities</u></b>		
<b><u>Current Liabilities</u></b>		
Accounts Payable	\$	\$ 546,515.00
Accrued Wages Payable	101,730.00	60,028.58
Accrued Interest Payable		175,570.00
Other Current Liabilities		46,237.00
Estimated Liability for Compensated Absences	20,148.95	13,447.44
Warrants Payable		870,000.00
Plus: Unamortized Premium		28,169.40
Total Current Liabilities	121,878.95	1,739,967.42
<b><u>Noncurrent Liabilities</u></b>		
Estimated Liability for Compensated Absences	181,340.57	121,026.98
Net Pension Liability	1,164,604.05	979,281.00
Net Other Post Employment Benefit Obligation	901,604.24	
Warrants Payable		13,680,000.00
Plus: Unamortized Premium		349,333.60
Total Noncurrent Liabilities	2,247,548.86	15,129,641.58
Total Liabilities	2,369,427.81	16,869,609.00
<b><u>Net Position</u></b>		
Net Investment in Capital Assets	1,902,305.45	13,599,860.00
Restricted for:		
Debt Service		557,271.00
Unrestricted	(528,772.98)	4,222,870.00
Total Net Position	\$ 1,373,532.47	\$ 18,380,001.00

The accompanying Notes to the Financial Statements are an integral part of this statement.



<b>Other Enterprise Funds</b>	<b>Total Enterprise Funds</b>
\$	\$
44,075.00	546,515.00
	205,833.58
	175,570.00
	46,237.00
8,988.99	42,585.38
	870,000.00
	28,169.40
<u>53,063.99</u>	<u>1,914,910.36</u>
91,984.87	394,352.42
517,601.80	2,661,486.85
358,751.12	1,260,355.36
	13,680,000.00
	349,333.60
<u>968,337.79</u>	<u>18,345,528.23</u>
<u>1,021,401.78</u>	<u>20,260,438.59</u>
2,885,309.06	18,387,474.51
	557,271.00
<u>2,408,773.07</u>	<u>6,102,870.09</u>
<u>\$ 5,294,082.13</u>	<u>\$ 25,047,615.60</u>

***Statement of Revenues, Expenses and Changes in Fund Net Position***  
***Proprietary Funds***  
***For the Year Ended September 30, 2016***

	<b>Major Funds</b>	
	<b>Sanitation Fund</b>	<b>Water Fund</b>
<b><u>Operating Revenues</u></b>		
Charges for Services	\$ 5,023,140.07	\$ 10,300,772.00
Miscellaneous	4,904.92	11,994.00
Total Operating Revenues	<u>5,028,044.99</u>	<u>10,312,766.00</u>
<b><u>Operating Expenses</u></b>		
Salaries and Benefits	2,777,362.25	2,001,224.00
Contractual and Professional Services	291,941.10	351,045.00
Landfill Expenses	1,029,747.25	
Materials and Supplies	159,751.56	338,167.00
Repairs and Maintenance	184,325.23	121,605.00
Fuel	186,190.98	77,485.00
Rentals		26,245.00
Utilities/Telephone	88,786.11	246,822.00
Insurance	101,583.00	171,236.00
Depreciation	419,612.00	1,892,281.00
Purchase of Water		4,123,841.00
Miscellaneous	7,260.04	152,823.00
Total Operating Expenses	<u>5,246,559.52</u>	<u>9,502,774.00</u>
Operating Income (Loss)	<u>(218,514.53)</u>	<u>809,992.00</u>
<b><u>Nonoperating Revenues (Expenses)</u></b>		
Interest Revenue	4,404.19	34,080.00
Operating Grants and Contributions	9,518.26	
Refund on Construction Work in Progress		154,368.00
Amortization of Debt Discount		(57,050.00)
Gain (Loss) on Disposition of Capital Assets	78,433.68	
Interest Expense		(764,702.00)
Bond Administration and Debt Expense		(132,350.00)
Total Nonoperating Revenues (Expenses)	<u>92,356.13</u>	<u>(765,654.00)</u>
Income (Loss) Before Transfers	<u>(126,158.40)</u>	<u>44,338.00</u>
<b><u>Operating Transfers</u></b>		
Transfers In		
Total Operating Transfers		
Change in Net Position	(126,158.40)	44,338.00
Net Position - Beginning of Year	1,499,690.87	18,335,663.00
Net Position - End of Year	<u>\$ 1,373,532.47</u>	<u>\$ 18,380,001.00</u>

The accompanying Notes to the Financial Statements are an integral part of this statement.

<b>Other Enterprise Funds</b>	<b>Total Enterprise Funds</b>
\$ 1,296,882.42	\$ 16,620,794.49
53,263.17	70,162.09
<u>1,350,145.59</u>	<u>16,690,956.58</u>
1,235,156.33	6,013,742.58
250,203.64	893,189.74
	1,029,747.25
195,754.78	693,673.34
168,399.90	474,330.13
17,864.65	281,540.63
	26,245.00
328,238.48	663,846.59
26,630.00	299,449.00
46,941.00	2,358,834.00
	4,123,841.00
37,420.71	197,503.75
<u>2,306,609.49</u>	<u>17,055,943.01</u>
<u>(956,463.90)</u>	<u>(364,986.43)</u>
	38,484.19
46,167.89	55,686.15
	154,368.00
	(57,050.00)
	78,433.68
	(764,702.00)
	(132,350.00)
<u>46,167.89</u>	<u>(627,129.98)</u>
<u>(910,296.01)</u>	<u>(992,116.41)</u>
<u>1,015,675.71</u>	<u>1,015,675.71</u>
<u>1,015,675.71</u>	<u>1,015,675.71</u>
105,379.70	23,559.30
5,188,702.43	25,024,056.30
<u>\$ 5,294,082.13</u>	<u>\$ 25,047,615.60</u>

***Statement of Cash Flows***  
***Proprietary Funds***  
***For the Year Ended September 30, 2016***

	<b>Major Funds</b>	
	<b>Sanitation Fund</b>	<b>Water Fund</b>
<b><u>Cash Flows from Operating Activities</u></b>		
Receipts from Customers	\$ 5,029,001.82	\$ 10,098,125.00
Payments to Suppliers	(2,049,585.27)	(1,412,049.00)
Payments to Employees	(2,533,195.48)	(6,090,647.00)
Net Cash Provided (Used) by Operating Activities	<u>446,221.07</u>	<u>2,595,429.00</u>
<b><u>Cash Flows from Noncapital Financing Activities</u></b>		
Operating Contribution from County		
Other Nonoperating Revenue/(Expense)	9,518.26	
Net Cash Provided (Used) by Noncapital Financing Activities	<u>9,518.26</u>	
<b><u>Cash Flows from Capital and Related Financing Activities</u></b>		
Purchases of Capital Assets	(236,095.95)	
Acquisition and Construction of Utility Plant		(1,601,866.00)
Sale of Capital Assets	115,346.19	
Advanced Refunding of Bonds		(16,750,000.00)
Cost of Debt Issuance		(241,725.00)
Payment of Bond Administration Fees		(132,350.00)
Proceeds from Issuance of Debt Series 2016		6,640,000.00
Principal Paid on Capital Debt		(410,000.00)
Interest Paid on Capital Debt		(555,581.00)
Net Cash Provided (Used) by Capital and Related Financing Activities	<u>(120,749.76)</u>	<u>(13,051,522.00)</u>
<b><u>Cash Flows from Investing Activities</u></b>		
Interest Received	4,404.19	34,080.00
Net Cash Provided (Used) by Investing Activities	<u>4,404.19</u>	<u>34,080.00</u>
Net Increase (Decrease) in Cash and Cash Equivalents	339,393.76	(10,422,013.00)
Cash and Cash Equivalents - Beginning of Year	<u>477,576.35</u>	<u>14,443,154.00</u>
Cash and Cash Equivalents - End of Year	<u>\$ 816,970.11</u>	<u>\$ 4,021,141.00</u>

Other Enterprise Funds	Total Enterprise Funds
\$ 1,350,145.59	\$ 16,477,272.41
(879,619.37)	(4,341,253.64)
(1,142,991.30)	(9,766,833.78)
(672,465.08)	2,369,184.99
788,213.32	788,213.32
46,167.89	55,686.15
834,381.21	843,899.47
(26,385.18)	(262,481.13)
	(1,601,866.00)
	115,346.19
	(16,750,000.00)
	(241,725.00)
	(132,350.00)
	6,640,000.00
	(410,000.00)
	(555,581.00)
(26,385.18)	(13,198,656.94)
	38,484.19
	38,484.19
135,530.95	(9,947,088.29)
9,045.38	14,929,775.73
\$ 144,576.33	\$ 4,982,687.44

***Statement of Cash Flows***  
***Proprietary Funds***  
***For the Year Ended September 30, 2016***

	<b>Major Funds</b>	
	<b>Sanitation Fund</b>	<b>Water Fund</b>
<b><u>Reconciliation of Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities</u></b>		
Operating Income (Loss)	\$ (218,514.53)	\$ 809,992.00
<b><u>Adjustments to Reconcile Operating Income to Net Cash Provided (Used) by Operating Activities</u></b>		
Depreciation Expense	419,612.00	1,892,281.00
Change in Assets and Liabilities:		
Decrease/(Increase) in Accounts Receivable	956.83	(140,696.00)
Decrease/(Increase) in Unbilled Receivables		(73,945.00)
Decrease/(Increase) in Inventories		(215,542.00)
Decrease/(Increase) in Other Current Assets		63,313.00
Decrease/(Increase) in Deferred Outflows	(147,100.86)	
(Decrease)/Increase in Accounts Payable		225,450.00
(Decrease)/Increase in Accrued Salaries and Benefits	28,140.00	
(Decrease)/Increase in Compensated Absences	5,511.24	
Decrease/(Increase) in Deferred Inflows	(95,036.58)	
(Decrease)/Increase in Net Pension Liability	228,707.55	34,576.00
(Decrease)/Increase in Net OPEB Obligations	223,945.42	
	<u>\$ 446,221.07</u>	<u>\$ 2,595,429.00</u>
Net Cash Provided (Used) by Operating Activities	<u>\$ 446,221.07</u>	<u>\$ 2,595,429.00</u>

The accompanying Notes to the Financial Statements are an integral part of this statement.

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<b>Other Enterprise Funds</b>	<b>Total Enterprise Funds</b>
\$ (811,571.11)	\$ (220,093.64)
46,941.00	2,358,834.00
	(139,739.17)
	(73,945.00)
	(215,542.00)
	63,313.00
(65,378.16)	(212,479.02)
	225,450.00
5,680.00	33,820.00
5,060.54	10,571.78
(42,238.48)	(137,275.06)
101,647.80	364,931.35
87,393.33	311,338.75
<u>\$ (672,465.08)</u>	<u>\$ 2,369,184.99</u>

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***Statement of Fiduciary Net Position***  
***September 30, 2016***

	<b>Private-Purpose Trust Funds</b>	<b>Agency Funds</b>
<b><u>Assets</u></b>		
Cash and Cash Equivalents	\$ 1,829,292.62	\$ 5,499,334.83
Investments	66,136.20	
Sales Tax Receivable		4,223,064.25
Due from Other Governments	50,132.81	246,900.03
Total Assets	<u>1,945,561.63</u>	<u>9,969,299.11</u>
<b><u>Liabilities</u></b>		
Due to External Parties		669.36
Due to Other Governments	51,223.01	8,794,478.32
Employee Benefits Payable		1,174,151.43
Total Liabilities	<u>51,223.01</u>	<u>\$ 9,969,299.11</u>
<b><u>Net Position</u></b>		
Held in Trust for Other Purposes	<u>1,894,338.62</u>	
Total Net Position	<u>\$ 1,894,338.62</u>	

The accompanying Notes to the Financial Statements are an integral part of this statement.

***Statement of Changes in Fiduciary Net Position  
For the Year Ended September 30, 2016***

	<b>Private-Purpose Trust Funds</b>
<b><u>Additions</u></b>	
Contributions from:	
Worthless Check Fees	\$ 92,915.23
District Attorney	25,872.67
Inmate Money	614,432.64
D.A.R.E.	37,382.79
Excess from Land Sales	471,666.48
Community Development Funds	473,492.03
Interest	1,581.39
Total Additions	<u>1,717,343.23</u>
<b><u>Deductions</u></b>	
Worthless Check Distributions	92,963.45
District Attorney	25,878.64
Public Safety	563,985.39
Excess Land Sales	178,794.85
Community Development Funds	522,851.91
D.A.R.E.	46,014.12
Miscellaneous	30,710.57
Total Deductions	<u>1,461,198.93</u>
Change in Net Position	256,144.30
Net Position - Beginning of Year	<u>1,638,194.32</u>
Net Position - End of Year	<u>\$ 1,894,338.62</u>

The accompanying Notes to the Financial Statements are an integral part of this statement.

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## *Notes to the Financial Statements*

### *For the Year Ended September 30, 2016*

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#### **Note 1 – Summary of Significant Accounting Policies**

The financial statements of the Cullman County Commission (the “Commission”) have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the government’s accounting policies are described below.

#### **A. Reporting Entity**

The Cullman County Commission is a general purpose local government governed by separately elected commissioners. Generally accepted accounting principles (GAAP) require that the financial statements present the Commission (the primary government) and its component units. Component units are legally separate entities for which a primary government is financially accountable or other organizations for which the nature and significance of their relationship with the primary government are such that exclusion would cause the reporting entity’s financial statements to be misleading or incomplete.

Based on the application of the criteria, there are no component units which should be included as part of the financial reporting entity of the Commission.

#### **B. Government-Wide and Fund Financial Statements**

##### **Government-Wide Financial Statements**

The Statement of Net Position and the Statement of Activities display information about the Commission. These statements include the financial activities of the primary government, except for fiduciary activities. Eliminations have been made to minimize the double counting of internal activities. These statements distinguish between the governmental and business-type activities of the Commission. Governmental activities generally are financed through taxes, intergovernmental revenues, and other nonexchange transactions. Business-type activities are financed in whole or in part by fees charged to external parties.

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## *Notes to the Financial Statements*

### *For the Year Ended September 30, 2016*

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The Statement of Activities presents a comparison between direct expenses and program revenues for each segment of the business-type activities of the Commission and for each function of the Commission's governmental activities. Direct expenses are those that are specifically associated with a program or function and, therefore, are clearly identifiable to a particular function. The Commission does not allocate indirect expenses to the various functions. Program revenues include (a) charges to customers or applicants who purchase, use or directly benefit from goods, services, or privileges provided by a given function or program and (b) grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues, including all taxes, are presented as general revenues.

#### **Fund Financial Statements**

The fund financial statements provide information about the Commission's funds, including fiduciary funds. Separate statements for each fund category – governmental, proprietary, and fiduciary – are presented. The emphasis of fund financial statements is on major governmental and enterprise funds, each displayed in a separate column. All remaining governmental and enterprise funds are aggregated and reported as nonmajor funds.

The Commission reports the following major governmental funds:

- ◆ **General Fund** – The General Fund is the primary operating fund of the Commission. It is used to account for all financial resources except those required to be accounted for in another fund. The Commission primarily received revenues from collections of property taxes and revenues collected by the State of Alabama and shared with the Commission. The General Fund also accounts for the expenditures of special county property taxes for building and maintaining public buildings, roads and bridges. Also accounted for in the General Fund are workers' compensation benefits and employee health insurance to self-insure the Commission against liability claims.
- ◆ **Gasoline Tax Fund** – This fund is used to account for the expenditure of the seven-cent gasoline tax. Revenues are earmarked for building and maintaining county roads. Also, this fund accounts for revenues and expenditures of motor vehicle license taxes and drivers' license fees for the construction, improvement and maintenance of public highways and streets.
- ◆ **Reappraisal Fund** – This fund is used to account for the expenditures of property taxes related to the county's reappraisal program.

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## *Notes to the Financial Statements*

### *For the Year Ended September 30, 2016*

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The Commission reports the following major enterprise funds:

- ◆ **Sanitation Fund** – This fund is used to account for the costs of providing solid waste service to county residents.
- ◆ **Water Fund** – This fund is used to account for the cost of providing water service to county residents.

The Commission reports the following governmental fund types in the Other Governmental Funds' column:

#### **Governmental Fund Types**

- ◆ **Special Revenue Funds** – These funds are used to account for and report the proceeds of specific revenue sources that are restricted or committed to expenditure for specified purposes other than debt service or capital projects.
- ◆ **Debt Service Funds** – These funds are used to account for and report financial resources that are restricted, committed, or assigned to expenditure for principal and interest and for the accumulation of resources for principal and interest payments maturing in future years.
- ◆ **Capital Projects Funds** – These funds are used to account for and report financial resources that are restricted, committed, or assigned to expenditure for capital outlay, including the acquisition or construction of capital facilities and other capital assets.

The Commission reports the following proprietary fund type:

#### **Proprietary Fund Type**

- ◆ **Other Enterprise Funds** – These funds report the activities for which fees are charged to external users for goods or services. This fund type is also used when the activity is financed with debt that is secured by a pledge of the net revenues from the fees.

The Commission reports the following fiduciary fund types:

#### **Fiduciary Fund Types**

- ◆ **Private-Purpose Trust Funds** – These funds are used to report all trust agreements under which principal and income benefit individuals, private organizations, or other governments.
- ◆ **Agency Funds** – These funds are used to report assets held by the Commission in a purely custodial capacity. The Commission collects these assets and transfers them to the proper individual, private organizations, or other government.

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## *Notes to the Financial Statements*

### *For the Year Ended September 30, 2016*

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#### **C. Measurement Focus, Basis of Accounting and Financial Statement Presentation**

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund and fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of the timing of related cash flows. Nonexchange transactions, in which the Commission gives (or receives) value without directly receiving (or giving) equal value in exchange, include property taxes, grants, entitlements, and donations. On an accrual basis, revenue from grants, entitlements, and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Revenue from property taxes is recognized in the fiscal year for which the taxes are levied.

As a general rule the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to the general rule are charges between the government's solid waste function and various other functions of the government. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Commission considers revenues to be available if they are collected within sixty (60) days of the end of the current fiscal year. Expenditures are recorded when the related fund liability is incurred, except for principal and interest on general long-term debt, claims and judgments, and compensated absences, which are recognized as expenditures to the extent they have matured. General capital asset acquisitions are reported as expenditures in governmental funds. General long-term debt issued and acquisitions under capital leases are reported as other financing sources.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the Commission's enterprise funds are charges to customers for sales and services. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

Under the terms of grant agreements, the Commission funds certain programs by a combination of specific cost-reimbursement grants, categorical block grants, and general revenues. Thus, when program expenses are incurred, there are both restricted and unrestricted net position available to finance the program. It is the Commission's policy to first apply cost-reimbursement grant resources to such programs, followed by general revenues.

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***Notes to the Financial Statements***  
***For the Year Ended September 30, 2016***

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**D. Assets, Deferred Outflows of Resources, Liabilities, Deferred Inflows of Resources and Net Position/Fund Balances**

**1. Deposits and Investments**

Cash and cash equivalents include cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition. For purposes of the Statement of Cash Flows, the proprietary fund type considers all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents.

State statutes authorize the County Commission to invest in obligations of the U. S. Treasury and securities of federal agencies and certificates of deposit.

Investments are reported at fair value, with the exception of certificates of deposit which are reported at cost.

**2. Receivables**

Sales tax receivables are based on the amounts collected within 60 days after year-end.

Sales tax receivables consist of taxes that have been paid by consumers in September. This tax is normally remitted to the Commission within the next 60 days.

Millage rates for property taxes are levied at the first regular meeting of the Commission in February of each year. Property is assessed for taxation as of October 1 of the preceding year based on the millage rates established by the County Commission. Property taxes are due and payable the following October 1 and are delinquent after December 31. Amounts receivable, net of estimated refunds and estimated uncollectible amounts, are recorded for the property taxes levied in the current year. However, since the amounts are not available to fund current year operations, the revenue is deferred and recognized in the subsequent fiscal year when the taxes are both due and collectible and available to fund operations. Property tax revenue deferred is reported as a deferred inflow of resources.

Receivables due from other governments include amounts due from grantors for grants issued for specific programs, federal inmate housing and capital projects.

**3. Inventories**

Inventories are valued at cost, which approximates market, using the first-in/first-out (FIFO) method. Inventories of governmental funds are recorded as expenditures when consumed rather than when purchased.

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***Notes to the Financial Statements***  
***For the Year Ended September 30, 2016***

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**4. Prepaid Items**

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements.

**5. Restricted Assets**

Certain revenues set aside for county jail maintenance and certain water revenue bonds, as well as resources set aside for their payment, are classified as restricted on the balance sheet because they are maintained in separate bank accounts and their use is limited by either outside parties or by bond covenants.

**6. Capital Assets**

Capital assets, which include property, equipment, and infrastructure assets (e.g., roads, bridges, water and sewer systems, and similar items), are reported in the applicable governmental and business-type activities columns in the government-wide and proprietary fund financial statements. Such assets are valued at cost where historical records are available and at an estimated historical cost where no historical records exist. Donated fixed assets are valued at their estimated fair market value on the date received. Additions, improvements and other capital outlays that significantly extend the useful life of an asset are capitalized. Other costs incurred for repairs and maintenance are expensed as incurred. Major outlays of capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets constructed.



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***Notes to the Financial Statements***  
***For the Year Ended September 30, 2016***

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Depreciation on all assets is provided on the straight-line basis over the assets estimated useful life. Capitalization thresholds (the dollar values above which asset acquisitions are added to the capital asset accounts) and estimated useful lives of capital assets reported in the government-wide and proprietary fund statements are as follows:

	Capitalization Threshold	Estimated Useful Life
<u>Governmental Activities:</u>		
Infrastructure – Roads	\$250,000.00	20 Years
Infrastructure – Bridges	\$ 50,000.00	40 Years
Building and Improvements	\$ 50,000.00	40 Years
Equipment and Furniture	\$ 5,000.00	3 – 12 Years
<u>Business-Type Activities:</u>		
Water		
Buildings and Improvements	\$ 500.00	4 – 30 Years
Equipment and Furniture	\$ 500.00	5 – 20 Years
Water Distribution System	\$ 500.00	5 – 50 Years
<u>Sanitation and Other Enterprise Funds:</u>		
Buildings and Improvements	\$ 50,000.00	40 Years
Equipment and Furniture	\$ 5,000.00	3 – 12 Years

The Water Distribution System Assets are capitalized at the \$500.00 level due to the inclusion of water meters.

The majority of governmental activities infrastructure assets are roads and bridges. The Association of County Engineers has determined that due to the climate and materials used in road construction, the base of the roads in the county will not deteriorate and therefore should not be depreciated. The remaining part of the roads, the surface, will deteriorate and will be depreciated. The entire costs of bridges in the county will be depreciated.

**7. Deferred Outflows of Resources**

Deferred outflows of resources are reported in the statement of net position. Deferred outflows of resources are defined as a consumption of net position by the government that is applicable to a future reporting period. Deferred outflows of resources increases net position, similar to assets.

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***Notes to the Financial Statements***  
***For the Year Ended September 30, 2016***

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**8. Long-Term Obligations**

In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type Statement of Net Position. Warrant premiums are deferred and amortized over the life of the debt. Warrants payable are reported gross with a separate line item for the applicable warrant premium.

In the governmental fund financial statements, governmental fund types recognize premiums and discounts, as well as issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

**9. Compensated Absences**

The Commission has a standard leave policy for its full-time employees as to sick and annual leave.

**Annual Leave**

Annual leave is accrued by employees at the following rates:

0 – 10 Years	4 Hours per pay period
10 – 15 Years	5 Hours per pay period
16 – 20 Years	6 Hours per pay period
20 and Over Years	8 Hours per pay period

Employees may accumulate up to 480 hours of annual leave. Employees are paid for accrued annual leave upon separation.

**Sick Leave**

Full-time regular employees accrue sick leave at the rate of 4 hours per pay period. There is no limitation as to the maximum sick leave an employee can accumulate. As of September 30, 2016, no liability for unpaid sick leave is accrued in the financial statements since employees do not receive termination payments for sick leave balances.

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## *Notes to the Financial Statements*

### *For the Year Ended September 30, 2016*

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#### *Compensatory Leave*

Compensatory leave was provided to permanent full-time employees in accordance with the Fair Labor Standards Act through November 9, 2007. On that date, the Commission passed a resolution which ended the earning and accumulation of compensatory leave. Employees who had accumulated compensatory leave balances prior to that date were allowed to retain the leave, to be taken or paid out based on prior policy. Employees may be paid for compensatory time at a date other than retirement or separation for reasons of financial hardship. A request for payment must be submitted through department heads for approval. Compensatory time will only be paid in increments of 40 hours or more if the request is made for reasons of financial hardship. Upon receipt of request, payment will be made the following payday, if payroll processing has not begun.

#### *10. Deferred Inflows of Resources*

Deferred inflows of resources are reported in the government-wide and fund financial statements. Deferred inflows of resources are defined as an acquisition of net position/fund balances by the government that is applicable to a future reporting period. Deferred inflows of resources decrease net position/fund balances, similar to liabilities.

#### *11. Pensions*

For the purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, the Employees' Retirement System of Alabama (the "Plan") financial statements are prepared using the economic resources measurement focus and accrual basis of accounting. Contributions are recognized as revenues when earned, pursuant to the Plan requirements. Benefits and refunds are recognized when due and payable in accordance with terms of the Plan. Expenses are recognized when the corresponding liability is incurred, regardless of when the payment is made. Investments are reported at fair value. Financial statements are prepared in accordance with the requirements of the Governmental Accounting Standards Board (GASB). Under these requirements, the Plan is considered a component unit of the State of Alabama and is included in the State's Comprehensive Annual Financial Report.

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## *Notes to the Financial Statements*

### *For the Year Ended September 30, 2016*

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#### 12. Net Position/ Fund Balances

Net position is reported on the government-wide and proprietary fund financial statements and is required to be classified for accounting and reporting purposes into the following net position categories:

- ◆ **Net Investment in Capital Assets** – Capital assets net of accumulated depreciation and outstanding principal balances of debt attributable to the acquisition, construction or improvement of those assets. Deferred outflows of resources and deferred inflows of resources attributable to acquisition, construction and improvement of those assets should also be included in this component. Any significant unspent related debt proceeds, or deferred inflows of resources attributable to the unspent amount at year-end related to capital assets are not included in this calculation. Debt proceeds or deferred inflows of resources at the end of the reporting period should be included in the same net position amount (restricted, unrestricted) as the unspent amount.
- ◆ **Restricted** – Constraints imposed on net position by external creditors, grantors, contributors, laws or regulations of other governments, or law through constitutional provision or enabling legislation.
- ◆ **Unrestricted** – is the net amount of assets, deferred outflows of resources, liabilities and deferred inflows of resources that are not included in the determination of net investment in capital assets or the restricted components of net position. Unrestricted net position is not subject to externally imposed stipulations. Unrestricted net position may be designated for specific purposes by action of the Commission.

Fund balance is reported in governmental funds in the fund financial statements under the following categories:

- ◆ **Nonspendable** – Nonspendable fund balances include amounts that cannot be spent because they are either (a) not in spendable form or (b) legally or contractually required to be maintained intact. Examples of nonspendable fund balance reserves for which fund balance shall not be available for financing general operating expenditures include: inventories, prepaid items, and long-term receivables.
- ◆ **Restricted** – Restricted fund balances consist of amounts that are subject to externally enforceable legal restrictions imposed by creditors, grantors, contributors, or laws and regulations of other governments; or through constitutional provisions or enabling legislation.

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## *Notes to the Financial Statements*

### *For the Year Ended September 30, 2016*

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- ◆ **Committed** – Committed fund balances consist of amounts that are subject to a purpose constraint imposed by formal action or resolution of the Commission, which is the highest level of decision-making authority, before the end of the fiscal year and that require the same level of formal action to remove or modify the constraint.
  
- ◆ **Assigned** – Assigned fund balances consist of amounts that are intended to be used by the Commission for specific purposes. The Commission authorized the County Administrator or the Commission Chairman to make a determination of the assigned amounts of fund balance. Such assignments may not exceed the available (spendable, unrestricted, uncommitted) fund balance in any particular fund. Assigned fund balances require the same level of authority to remove the constraint.
  
- ◆ **Unassigned** – Unassigned fund balances include all spendable amounts not contained in the other classifications. This portion of the total fund balance in the General Fund is available to finance operating expenditures.

#### **General Fund Balance Policy**

The General Fund is used to account for and report all financial resources not accounted for and reported in another fund. The County General Fund will maintain sufficient working capital and a margin of safety to address local and regional emergencies without borrowing.

In circumstances where an expenditure is to be made for a purpose for which amounts are available in multiple fund balance classifications, the order in which resources will be expended is as follows: restricted fund balance, followed by committed fund balance, assigned fund balance and, lastly, unassigned fund balance.

#### **Special Revenue Fund Balance Policy**

Special revenue funds are used to account for and report the proceeds of specific revenue sources that are restricted or committed to expenditure for specified purposes other than debt service or capital projects. The restricted or committed proceeds of special revenue sources should be expected to continue to comprise a substantial portion of the inflows reported in the fund. Other resources also may be reported in the fund if those resources are restricted, committed, or assigned to the specified purpose of the fund. Governments should discontinue reporting a special revenue fund, and instead report the fund's remaining resources in the General Fund, if the government no longer expects that a substantial portion of the inflows will derive from restricted or committed revenue sources.

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## *Notes to the Financial Statements*

### *For the Year Ended September 30, 2016*

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The Cullman County Commission established the 40% rule averaged out over a period of 3 years to determine whether a fund is considered to be a Special Revenue Fund for reporting purposes. Any Special Revenue Fund with restricted and committed revenues less than 40% of total inflows shall, for reporting purposes, be considered a part of the County General Fund, or appropriate Special Revenue Fund. Any fund which ceases to exist as a Special Revenue due to the 40% rule may be combined with the General Fund or another Special Revenue Fund, if appropriate.

The Cullman County Commission authorizes the County Administrator to maintain separate funds for various revenues and/or expenditure/department codes for the purposes of providing budgetary and accountability to elected officials and/or departments.

In circumstances where expenditure is to be made for a purpose for which amounts are available in multiple fund balance classifications, the order in which resources will be expended is as follows: restricted fund balance, followed by committed fund balance, and lastly assigned fund balance.

#### **Capital Projects Fund Balance Policy**

Capital projects funds are used to account for and report financial resources that are restricted, committed or assigned to expenditure for capital outlays, including the acquisition or construction of capital facilities and other capital assets. Capital projects funds exclude those types of capital-related outflows financed by proprietary funds or for assets that will be held in trust for individuals, private organizations or other governments.

In circumstances where an expenditure is to be made for a purpose for which amounts are available in multiple fund balance classifications, the order in which resources will be expended is as follows: restricted fund balance, followed by committed fund balance and, lastly, assigned fund balance.

#### **Debt Service Fund Balance Policy**

Debt service funds are used to account for and report financial resources that are restricted, committed or assigned to expenditure for principal and interest, even if it is being accumulated for future years' payments. Debt service funds should be used to report resources if legally mandated.

In circumstances where an expenditure is to be made for a purpose for which amounts are available in multiple fund balance classifications, the order in which resources will be expended is as follows: restricted fund balance, followed by committed fund balance, assigned fund balance, and lastly, unassigned fund balance.

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## *Notes to the Financial Statements*

### *For the Year Ended September 30, 2016*

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#### *Note 2 – Stewardship, Compliance, and Accountability*

##### *Budgets*

Budgets are adopted on a basis of accounting consistent with accounting principles generally accepted in the United States of America (GAAP) for all governmental funds except the capital projects funds, which adopt project-length budgets. All appropriations lapse at fiscal year-end.

The present statutory basis for county budgeting operations is the County Financial Control Act of 1935, as amended by Act Number 2007-488, Acts of Alabama. According to the terms of the law, at some meeting in September of each year, but in any event not later than October 1, the Commission must estimate the anticipated revenues, estimated expenditures, and appropriations for the respective amounts that are to be used for each of such purposes. The appropriations must not exceed the total revenues available for appropriation plus any balances on hand. Expenditures may not legally exceed appropriations.

Budgets may be adjusted during the fiscal year when approved by the County Commission. Any changes must be within the revenues and reserves estimated to be available.

#### *Note 3 – Deposits and Investments*

##### *Deposits*

The custodial credit risk for deposits is the risk that, in the event of a bank failure, the Commission will not be able to cover deposits or will not be able to recover collateral securities that are in the possession of an outside party. The Commission's deposits at year-end were entirely covered by federal depository insurance or by the Security for Alabama Funds Enhancement Program (SAFE Program). The SAFE Program was established by the Alabama Legislature and is governed by the provisions contained in the *Code of Alabama 1975*, Sections 41-14A-1 through 41-14A-14. Under the SAFE Program all public funds are protected through a collateral pool administered by the Alabama State Treasurer's Office. Under this program, financial institutions holding deposits of public funds must pledge securities as collateral against those deposits. In the event of failure of a financial institution, securities pledged by that financial institution would be liquidated by the State Treasurer to replace the public deposits not covered by the Federal Deposit Insurance Corporation (FDIC). If the securities pledged fail to produce adequate funds, every institution participating in the pool would share the liability for the remaining balance. All of the Commission's investments were in certificates of deposit. These certificates of deposit are classified as "Deposits" in order to determine insurance and collateralization. However, they are classified as "Investments" on the financial statements.

The Commission also reports Cash with Fiscal Agent which consists of U. S. Treasury Funds.

***Notes to the Financial Statements***  
***For the Year Ended September 30, 2016***

**Note 4 – Capital Assets**

Capital asset activity for the year ended September 30, 2016, was as follows:

	Balance 10/01/2015	Additions (*)	Retirements (*)	Balance 09/30/2016
<b>Governmental Activities:</b>				
<b>Capital Assets, Not Being Depreciated:</b>				
Land – Including Easements	\$ 23,566,485.41	\$	\$	\$ 23,566,485.41
Construction In Progress	279,180.40		(279,180.40)	
Total Capital Assets, Not Being Depreciated	23,845,665.81		(279,180.40)	23,566,485.41
<b>Capital Assets Being Depreciated:</b>				
Infrastructure Roads and Bridges	43,753,564.35			43,753,564.35
Buildings and Improvements	22,458,300.54	548,947.23		23,007,247.77
Equipment	14,810,273.25	1,850,065.59	(2,101,842.48)	14,558,496.36
Total Capital Assets Being Depreciated	81,022,138.14	2,399,012.82	(2,101,842.48)	81,319,308.48
<b>Less Accumulated Depreciation for:</b>				
Infrastructure Roads and Bridges	(9,349,960.00)	(437,745.00)		(9,787,705.00)
Buildings and Improvements	(6,628,780.00)	(583,684.00)		(7,212,464.00)
Equipment	(10,484,353.00)	(1,081,453.00)	1,389,950.00	(10,175,856.00)
Total Accumulated Depreciation	(26,463,093.00)	(2,102,882.00)	1,389,950.00	(27,176,025.00)
Total Capital Assets, Being Depreciated, Net	54,559,045.14	296,130.82	(711,892.48)	54,143,283.48
Total Governmental Activities Capital Assets, Net	\$ 78,404,710.95	\$ 296,130.82	\$ (991,072.88)	\$ 77,709,768.89
(*) The Additions and Retirements columns include \$279,180.40 for Construction in Progress reclassified to Buildings and Improvements.				



**Notes to the Financial Statements**  
**For the Year Ended September 30, 2016**

	Balance 10/01/2015	Additions (*)	Retirements (*)	Balance 09/30/2016
<b>Business Type Activities:</b>				
<b>Capital Assets Not Being Depreciated:</b>				
Land	\$ 2,658,714.97	\$	\$	\$ 2,658,714.97
Construction in Progress	990,638.64	1,415,486.00	(2,019,795.00)	386,329.64
Total Capital Assets, Not Being Depreciated	<u>3,649,353.61</u>	<u>1,415,486.00</u>	<u>(2,019,795.00)</u>	<u>3,045,044.61</u>
<b>Capital Assets Being Depreciated:</b>				
Buildings	4,020,564.78	11,107.00		4,031,671.78
Equipment	5,971,897.00	327,689.00	(199,390.00)	6,100,196.00
Water Distribution System	49,130,115.00	2,019,795.00		51,149,910.00
Other Equipment	5,237,854.05	293,324.73	(250,058.66)	5,281,120.12
Total Capital Assets, Being Depreciated	<u>64,360,430.83</u>	<u>2,651,915.73</u>	<u>(449,448.66)</u>	<u>66,562,897.90</u>
<b>Less Accumulated Depreciation for:</b>				
Buildings	(1,006,385.00)	(105,840.00)		(1,112,225.00)
Equipment	(5,016,130.00)	(301,385.00)	199,390.00	(5,118,125.00)
Water Distribution System	(25,524,646.00)	(1,497,949.00)		(27,022,595.00)
Other Equipment	(3,138,500.00)	(452,499.00)	210,854.00	(3,380,145.00)
Total Accumulated Depreciation	<u>(34,685,661.00)</u>	<u>(2,357,673.00)</u>	<u>410,244.00</u>	<u>(36,633,090.00)</u>
Total Capital Assets Being Depreciated, Net	<u>29,674,769.83</u>	<u>294,242.73</u>	<u>(39,204.66)</u>	<u>29,929,807.90</u>
Total Business-Type Activities Capital Assets, Net	<u>\$ 33,324,123.44</u>	<u>\$ 1,709,728.73</u>	<u>\$(2,058,999.66)</u>	<u>\$ 32,974,852.51</u>
(*) The Additions and Retirements columns include \$2,019,795.00 for Construction in Progress reclassified to Water Distribution System.				

Depreciation expense was charged to functions/programs of the primary government as follows:

	Current Year Depreciation Expense
<b>Governmental Activities:</b>	
General Government	\$ 282,550.00
Public Safety	554,773.00
Highways and Roads	899,596.00
Health	14,264.00
Welfare	344,436.00
Culture	7,263.00
Total Depreciation Expense – Governmental Activities	<u>2,102,882.00</u>
<b>Business-Type Activities:</b>	
Water	1,891,120.00
Parks – Recreation	46,941.00
Sanitation	419,612.00
Total Depreciation Expense – Business-Type Activities	<u>\$2,357,673.00</u>

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## *Notes to the Financial Statements*

### *For the Year Ended September 30, 2016*

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#### Note 5 – Defined Benefit Pension Plan

##### A. General Information about the Pension Plan

###### Plan Description

The Employees' Retirement System of Alabama (the "ERS"), an agency multiple-employer plan, was established October 1, 1945, under the provisions of Act Number 515, Acts of Alabama 1945, for the purpose of providing retirement allowances and other specified benefits for state employees, State police, and on an elective basis to all cities, counties, towns and quasi-public organizations. The responsibility for general administration and operation of ERS is vested in the Board of Control. The ERS Board of Control consists of 13 trustees. The Plan is administered by the Retirement Systems of Alabama (RSA). The *Code of Alabama 1975*, Section 36-27-2, grants the authority to establish and amend the benefit terms to the ERS Board of Control. The Plan issues a publicly available financial report that can be obtained at [www.rsa-al.gov](http://www.rsa-al.gov).

The ERS Board of Control consists of 13 trustees as follows:

- 1) The Governor, ex officio
- 2) The State Treasurer, ex officio
- 3) The State Personnel Director, ex officio
- 4) The State Director of Finance, ex officio
- 5) Three vested members of ERS appointed by the Governor for a term of four years, no two of whom are from the same department of state government nor from any department of which an ex officio trustee is the head.
- 6) Six members of ERS who are elected by members from the same category of ERS for a term of four years as follows:
  - a. Two retired members with one from the ranks of retired state employees and one from the ranks of retired employees of a city, county, or a public agency each of whom is an active beneficiary of ERS.
  - b. Two vested active state employees.
  - c. Two vested active employees of an employer participating in ERS pursuant to the *Code of Alabama 1975*, Section 36-27-6.

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## *Notes to the Financial Statements*

### *For the Year Ended September 30, 2016*

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#### Benefits Provided

State law establishes retirement benefits as well as death and disability benefits and any ad hoc increase in postretirement benefits for the ERS. Benefits for ERS members vest after 10 years of creditable service. State employees who retire after age 60 (52 for State Police) with 10 years or more of creditable service or with 25 years of service (regardless of age) are entitled to an annual retirement benefit, payable monthly for life. Local employees who retire after age 60 with 10 years or more of creditable service, or with 25 or 30 years of service (regardless of age), depending on the particular entity's election, are entitled to an annual retirement benefit, payable monthly for life. Service and disability retirement benefits are based on a guaranteed minimum or a formula method, with the member receiving payment under the method that yields the highest monthly benefit. Under the formula method, members of the ERS (except State Police) are allowed 2.0125% of their average final compensation (highest 3 of the last 10 years) for each year of service. State Police are allowed 2.875% for each year of State Police service in computing the formula method.

Act Number 2012-377, Acts of Alabama, established a new tier of benefits (Tier 2) for members hired on or after January 1, 2013. Tier 2 ERS members are eligible for retirement after age 62 (56 for State Police) with 10 years or more of creditable service and are entitled to an annual retirement benefit, payable monthly for life. Service and disability retirement benefits are based on a guaranteed minimum or a formula method, with the member receiving payment under the method that yields the highest monthly benefit. Under the formula method, Tier 2 members of the ERS (except for State Police) are allowed 1.65% of their average final compensation (highest 5 of last 10 years) for each year of service. State Police are allowed 2.375% for each year of State Police service in computing the formula method.

Members are eligible for disability retirement if they have 10 years of creditable service, are currently in-service, and determined by the RSA Medical Board to be permanently incapacitated from further performance of duty. Preretirement death benefits are calculated and paid to the beneficiary on the member's age, service credit, employment status and eligibility for retirement.

The ERS serves approximately 876 local participating employers. These participating employers include 294 cities, 65 counties, and 517 other public entities. The ERS membership includes approximately 84,393 participants. As of September 30, 2015, membership consisted of:

Retirees and beneficiaries currently receiving benefits	22,211
Terminated employees entitled to but not yet receiving benefits	1,353
Terminated employees not entitled to a benefit	5,451
Active Members	55,164
Post DROP participants who are still in active service	214
Total	84,393

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## *Notes to the Financial Statements*

### *For the Year Ended September 30, 2016*

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#### Contributions

Covered members of the ERS contributed 5% of earnable compensation to the ERS as required by statute until September 30, 2011. From October 1, 2011 to September 30, 2012, covered members of the ERS were required by statute to contribute 7.25% of earnable compensation. Effective October 1, 2012, covered members of the ERS are required by statute to contribute 7.50% of earnable compensation. Certified law enforcement, correctional officers, and firefighters of the ERS contributed 6% of earnable compensation as required by statute until September 30, 2011. From October 1, 2011 to September 30, 2012, certified law enforcement, correctional officers, and firefighters of the ERS were required by statute to contribute 8.25% of earnable compensation. Effective October 1, 2012, certified law enforcement, correctional officers, and firefighters of the ERS are required by statute to contribute 8.50% of earnable compensation. State Police of the ERS contribute 10% of earnable compensation. ERS local participating employers are not required by the statute to increase contribution rates for their members. Cullman County elected not to increase the rates for their members.

Tier 2 covered members of the ERS contribute 6% of earnable compensation to the ERS as required by statute. Tier 2 certified law enforcement, correctional officers, and firefighters of the ERS are required by statute to contribute 7% of earnable compensation. Tier 2 State Police members of the ERS contribute 10% of earnable compensation. These contributions rates are the same for Tier 2 covered members of ERS local participating employers.

The ERS establishes rates based upon an actuarially determined rate recommended by an independent actuary. The actuarially determined rate is the estimated amount necessary to finance the costs of benefits earned by employees during the year, with additional amounts to finance any unfunded accrued liability, the pre-retirement death benefit and administrative expenses of the Plan. For the year ended September 30, 2016, the Commission's active employee contribution rate was 5.38 percent of covered employee payroll, and the Commission's average contribution rate to fund the normal and accrued liability costs was 8.46% of covered employee payroll.

The Commission's contractually required contribution rate for the year ended September 30, 2016, was 8.88% of the pensionable pay for Tier 1 employees, and 6.05% of the pensionable pay for Tier 2 employees. These required contribution rates are based upon the actuarial valuation dated September 30, 2013, a percent of annual pensionable payroll, and actuarially determined as an amount that, when combined with member contributions, is expected to finance the costs of benefits earned by members during the year, with an additional amount to finance any unfunded accrued liability. Total employer contributions to the pension plan from the Commission were \$1,419,415.55 for the year ended September 30, 2016.

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***Notes to the Financial Statements***  
***For the Year Ended September 30, 2016***

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**B. Net Pension Liability**

The Commission's net pension liability was measured as of September 30, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of September 30, 2014, rolled forward to September 30, 2015, using standard roll-forward techniques as shown in the following table:

	Expected	Actual
Total Pension Liability, as of September 30, 2014 (a)	\$47,178,355	\$47,568,268
Entry Age Normal Cost for October 1, 2014 – September 30, 2015 (b)	1,355,938	1,355,938
Actual Benefit Payments and Refunds for October 1, 2014 – September 30, 2015 (c)	<u>(2,544,867)</u>	<u>(2,544,867)</u>
Total Pension Liability, as of September 30, 2015 = [(a) x (1.08)] + (b) – [(c) x (1.04)]	<u>\$49,661,900</u>	<u>\$50,083,006</u>
Difference between Expected and Actual Experience (Gain)/Loss		<u>\$ 421,106</u>

**Actuarial Assumptions**

The total pension liability in the September 30, 2014, actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	3.00%
Salary Increases	3.75% - 7.25%
Investment Rate of Return (*)	8.00%
(*) Net of pension plan investment expense	

Mortality rates for ERS were based on the RP-2000 Combined Mortality Table Projected with Scale AA to 2015 set forward three years for males and two years for females. The rates of mortality for this period after disability retirement are according to the sex distinct RP-2000 Disability Mortality Table.

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## *Notes to the Financial Statements*

### *For the Year Ended September 30, 2016*

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The actuarial assumptions used in the September 30, 2014, valuation were based on the results of an investigation of the economic and demographic experience for the ERS based upon participant data as of September 30, 2010. The Board of Control accepted and approved these changes on January 27, 2012, which became effective at the beginning of fiscal year 2012.

The long-term expected rate of return on pension plan investments was determined using a log-normal distribution analysis in which best-estimate ranges of expected future real rates or return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates or return by the target asset allocation percentage and by adding expected inflation. The target asset allocation and best estimates of geometric real rates of return for each major asset class are as follows:

	Target Allocation	Long-Term Expected Rate of Return (*)
Fixed Income	25.00%	5.00%
U. S. Large Stocks	34.00%	9.00%
U. S. Mid Stocks	8.00%	12.00%
U. S. Small Stocks	3.00%	15.00%
International Developed Market Stocks	15.00%	11.00%
International Emerging Market Stocks	3.00%	16.00%
Real Estate	10.00%	7.50%
Cash	2.00%	1.50%
Total	100.00%	
(*) Includes assumed rate of inflation at 2.50%		

#### **Discount Rate**

The discount rate used to measure the total pension liability was the long-term rate of return, 8%. The projection of cash flows used to determine the discount rate assumed that plan member contributions will be made at the current contribution rate and that the employer contributions will be made in accordance with the funding policy adopted by the ERS Board of Control. Based on those assumptions, components of the pension plan's fiduciary net position were projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

**Notes to the Financial Statements**  
**For the Year Ended September 30, 2016**

**C. Changes in Net Pension Liability**

	Increase (Decrease)		
	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (c)
Balances at September 30, 2014	\$47,178,355	\$36,779,505	\$10,398,850
Charges for the Year:			
Service Cost	1,355,938		1,355,938
Interest	3,672,474		3,672,474
Difference between expected and actual experience	421,106		421,106
Contributions – Employer		1,293,481	(1,293,481)
Contributions – Employee		958,127	(958,127)
Net Investment Income		435,914	(435,914)
Benefit Payments, including Refunds of Employee Contributions	(2,544,867)	(2,544,867)	
Transfers Among Employers		220,801	(220,801)
Net Changes	2,904,651	363,456	2,541,195
Balances at September 30, 2015	\$50,083,006	\$37,142,961	\$12,940,045

**Sensitivity of the Net Pension Liability to Changes in the Discount Rate**

The following table presents the Commission’s net pension liability calculated using the discount rate of 8%, as well as what the Commission’s proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (7%) or 1-percentage-point higher (9%) than the current rate:

	1% Decrease (7.00%)	Current Discount Rate (8.00%)	1% Increase (9.00%)
Commission's Net Pension Liability	\$18,826,988	\$12,940,045	\$7,980,984

**Pension Plan Fiduciary Net Position**

Detailed information about the pension plan’s fiduciary net position is available in the separately issued RSA Comprehensive Annual Report for the fiscal year ended September 30, 2015. The supporting actuarial information is included in the GASB Statement Number 68 Report for the ERS prepared as of September 30, 2015. The auditor’s report dated October 17, 2016, on the Schedule of Changes in Fiduciary Net Position by Employer and accompanying notes is also available. The additional financial and actuarial information is available at [www.rsa-al.gov](http://www.rsa-al.gov).

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## *Notes to the Financial Statements*

### *For the Year Ended September 30, 2016*

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The ERS financial statements are prepared using the economic resources measurement focus and accrual basis of accounting. Contributions are recognized as revenues when earned, pursuant to the plan requirements. Benefits and refunds are recognized when due and payable in accordance with the terms of the Plan. Expenses are recognized when the corresponding liability is incurred, regardless of when the payment is made. Investments are reported at fair value. Financial statements are prepared in accordance with requirements of the Governmental Accounting Standards Board (GASB). Under these requirements, the Plan is considered a component unit of the State of Alabama and is included in the State's Comprehensive Annual Financial Report.

#### **D. Pension Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions**

For the year ended September 30, 2016, the Commission recognized pension expense of \$1,214,661.00. At September 30, 2016, the Commission reported deferred outflows of resources and deferred inflows of resources related to pensions of the following sources:

	Deferred Outflows of Resources
Difference between expected and actual experience	\$ 361,774.89
Net Difference between projected and actual earnings on pension plan investments	1,211,159.40
Employer contributions subsequent to the measurement date	1,419,415.55
Total	\$2,992,349.84

Amounts reported as deferred outflows of resources and deferred inflows of resources to pensions will be recognized in pension expense as follows:

Year Ended:	
September 30, 2017	\$304,639
2018	\$304,639
2019	\$304,641
2020	\$568,628
2021	\$ 67,920
Thereafter	\$ 13,586



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## *Notes to the Financial Statements*

### *For the Year Ended September 30, 2016*

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#### **Note 6 – Other Postemployment Benefits (OPEB)**

##### **A. Plan Description**

The Cullman County Commission provides a single-employer defined benefit medical insurance plan for eligible retirees and their spouses. The medical insurance plan covers both active and retired members. The *Code of Alabama 1975*, Sections 11-91-1 through 11-91-8, gives authority to the Commission to establish and amend benefit provisions. The plan does not issue a stand-alone financial report.

##### **B. Funding Policy**

The Commission, by resolution, allows retired employees and officials to continue to participate in the Commission’s health insurance plan. The Commission’s match is equal to the cost to regular full-time employees until the retired employee becomes eligible for Medicare, at which time the Commission pays 50% of the premium.

Retirees under age of 65 pay \$40.18 a month for single coverage and \$184.44 a month for family coverage. When retirees reach age 65 they must go on C-plus and pay \$70.00 a month and their spouse loses coverage unless they elect COBRA.

The Commission’s contributions are on a pay-as-you-go basis, and does not plan to set up a trust fund to fund its postemployment medical insurance plan. For the year ended September 30, 2016, the Commission’s expenditures to cover approximately 134 participants totaled \$922,211.

##### **C. Annual OPEB Cost**

For fiscal year 2016, the Commission’s annual other postemployment benefit (OPEB) cost (expense) for medical insurance was \$1,549,218.00. The Commission’s annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for 2016 is as follows:

Fiscal Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
09/30/2016	\$1,549,218.00	59.53%	\$7,661,762.06
09/30/2015	\$1,546,565.00	35.85%	\$7,143,155.00
09/30/2014	\$1,503,706.00	36.62%	\$6,273,365.47

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***Notes to the Financial Statements***  
***For the Year Ended September 30, 2016***

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**D. Funded Status and Funding Progress**

The funding status of the plan as of September 30, 2016, was as follows:

Actuarial Accrued Liability (AAL)	\$19,975,475
Actuarial Value of Plan Assets	0
Unfunded Actuarial Accrued Liability (UAAL)	\$19,975,475
Funded Ratio (Actuarial Value of Plan Assets/AAL)	0
Covered Payroll (Active Plan Members)	\$16,598,665
UAAL as a Percentage of Covered Payroll	120.34%

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trends. Amounts determined regarding the funding status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, will in future years present multiyear trend information that will show whether the actuarial value of the plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

**E. Actuarial Methods and Assumptions**

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit cost between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

The actuarial cost method used was the projected unit credit method. The actuarial assumptions included a 4 percent investment return assumption (or discount rate) and an annual healthcare cost trend rate of 7.75 percent initially, reduced by decrements to an ultimate rate of 5 percent after ten years. It was assumed that 90 percent of future retirees would elect medical insurance coverage and 70 percent of retirees electing coverage who have spouses would elect spousal coverage. The unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll on an open period. The unfunded actuarial accrued liability (UAAL) is being amortized over 30 years.

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## *Notes to the Financial Statements*

### *For the Year Ended September 30, 2016*

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#### Note 7 – Contingent Liabilities

Under the provisions of Act Number 79-357, Acts of Alabama, a sheriff is eligible to become a supernumerary sheriff upon retirement after sixteen (16) years of service credit as a law enforcement officer, twelve (12) of which have been as a sheriff, and who has attained the age of fifty-five (55) years. The Cullman County Sheriff, who has elected to participate in this retirement plan, makes monthly contributions out of his salary as required by law. The Commission has a responsibility to properly manage these funds in order to provide the necessary monthly payments to the Sheriff when he retires. Should the Sheriff decide to withdraw from the plan, for whatever reason, the Commission is obligated to refund the Sheriff's total contribution which at September 30, 2016, amounted to \$52,136.44. Act Number 2014-84, Acts of Alabama, which passed February 25, 2014, states that no county official, including the sheriff, may assume a supernumerary position after the effective date of this amendment but is entitled to participate in the Employee Retirement System of Alabama. The last contribution made to the supernumerary plan was in fiscal year 2014.

#### Note 8 – Long-Term Debt

In 2004, \$4,000,000 in General Obligation Warrants, with an interest rate of 4.00 percent, was issued to provide additional funds for the construction of the new jail. During the 2012 fiscal year, the Commission refinanced the Series 2004 General Obligation Warrants lowering the interest rate from 4 percent to 3 percent leaving the annual debt service obligation unchanged but reducing the length of payments. As a result of the refinancing, the Commission reduced its total debt service requirements by \$284,353.78, which resulted in an economic gain (difference between the present value of the debt service payments on the old and new debt) of \$266,952.10.

In 2005, Water Revenue Refunding Warrants, with interest rates ranging from 2.70 to 4.25 percent, were issued to refund the 2000 Water Revenue Warrants. These warrants were refunded and removed during the 2016 fiscal year.

During the 2008 fiscal year, the Commission issued Series 2007 Water Revenue Warrants, with interest rates ranging from 3.25 to 4.125 percent, to refund Series 2003 Water Revenue Warrants and to complete an office building used to house the Water Department and the Emergency Management Department. These warrants were refunded and removed during the 2016 fiscal year.

During the 2010 fiscal year, the Commission issued Taxable Water Revenue Warrants, with interest rates ranging from 3.80 to 6.25 percent, to finance additional expansion of the water system. These warrants were refunded during the 2016 fiscal year.

During the 2011 fiscal year, the Commission issued \$6,550,000.00 in Series 2010 General Obligation Refunding Warrants dated December 16, 2010 to currently refund and redeem the Commission's outstanding Series 2002 General Obligation Warrants. Interest rates for the various scheduled maturities range from 2.0% to 3.50%.

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***Notes to the Financial Statements***  
***For the Year Ended September 30, 2016***

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During the 2013 fiscal year, the Commission issued Series 2013 General Obligation Warrants for \$2,000,000.00 payable in ten years at a fixed interest rate of 2.39% for the county's matching funds as part of the Alabama Transportation Rehabilitation and Improvement Program (ATRIP) to construct a new interchange on I-65 and County Road 222. The principal and interest will be paid for through a joint agreement between the Cullman Chamber of Commerce who will contribute 70% of its tourism lodging tax with the remaining balance evenly divided between the Cullman County Commission, the City of Cullman and the City of Good Hope.

During the fiscal year 2013, the Commission issued a fifteen year note in the amount of \$249,900.00 at a fixed interest rate of 3.25% for the purchase of an office building to house the Cullman County Economic Development Department.

During the 2015 fiscal year, the Commission issued \$8,320,000 in Series 2015 Water Revenue Warrants to refinance the Series 2005 and 2007 Bonds with interest rates ranging from 2.125% to 3.00% per annum.

During the 2016 fiscal year, the Commission issued \$6,640,000.00 in Series 2016 Water Revenue Warrants to refinance the Series 2010 Water Revenue Warrants, with interest rates ranging from 2.00% to 4.00% per annum.

***Notes to the Financial Statements***  
***For the Year Ended September 30, 2016***

The following is a summary of long-term debt transactions for the Commission for the year ended September 30, 2016:

	Debt Outstanding 10/01/2015	Issued/ Increased	Repaid/ Decreased	Debt Outstanding 09/30/2016	Amounts Due Within One Year
<b>Governmental Activities:</b>					
Warrants Payable Series 2004	\$ 2,022,237.09	\$	\$ (233,915.59)	\$ 1,788,321.50	\$ 241,295.57
Warrants Payable Series 2010	4,145,000.00		(545,000.00)	3,600,000.00	560,000.00
Warrants Payable Series 2013	1,544,547.29		(190,023.67)	1,354,523.62	194,778.33
Sub-Total	7,711,784.38		(968,939.26)	6,742,845.12	996,073.90
Notes Payable	212,700.53		(14,371.70)	198,328.83	14,845.79
Other Post Employment Benefit Obligation	6,194,138.27	157,268.43		6,351,406.70	
Estimated Liability for Compensated Absences	1,727,076.28		(152,896.62)	1,574,179.66	157,417.97
Net Pension Liability	8,319,080.00	2,032,956.00		10,352,036.00	
Total Governmental Activities	24,164,779.46	2,190,224.43	(1,136,207.58)	25,218,796.31	1,168,337.66
<b>Business-Type Activities:</b>					
Warrants Payable:					
2005 Refunding Warrants	3,955,000.00		(3,955,000.00)		
2007 Refunding Warrants	5,705,000.00		(5,705,000.00)		
2010-A Taxable Warrants	7,090,000.00		(7,090,000.00)		
2015 Warrants	8,320,000.00		(410,000.00)	7,910,000.00	780,000.00
2016 Warrants		6,640,000.00		6,640,000.00	90,000.00
Sub-Total	25,070,000.00	6,640,000.00	(17,160,000.00)	14,550,000.00	870,000.00
Less: Unamortized Discount	(73,519.00)		73,519.00		
Plus: Unamortized Premium	57,155.00	336,815.00	(16,467.00)	377,503.00	28,169.40
Other Post Employment Benefit Obligation	949,016.61	311,338.75		1,260,355.36	
Estimated Liability for Compensated Absences	410,303.60	26,634.20		436,937.80	42,585.38
Net Pension Liability	2,097,690.50	563,796.35		2,661,486.85	
Total Business-Type Activities	\$28,510,646.71	\$7,878,584.30	\$(17,102,948.00)	\$19,286,283.01	\$ 940,754.78

The 2004 and 2010 General Obligation Warrants will be repaid from the Public Buildings, Roads and Bridges Fund, Jail Construction Fund and/or the Capital Improvement Fund. The long-term note payable and the 2013 General Obligation Warrant will be paid out of the General Fund and Roads and Bridges Fund, excluding the amount obligated by the Cullman Chamber of Commerce, the City of Cullman and the City of Good Hope.

The warrants payable that pertain to the Business-Type Activities will be repaid from the Water System Fund.

The compensated absences liability attributable to the governmental activities will be liquidated by several of the Commission's governmental funds, while those attributable to the business-type activities will be liquidated from those funds.

**Notes to the Financial Statements**  
**For the Year Ended September 30, 2016**

The following is a schedule of debt service requirements to maturity:

Fiscal Year Ending	Governmental Activities			
	Series 2004 General Obligation Warrants		Series 2010 General Obligation Warrants	
	Principal	Interest	Principal	Interest
September 30 2017	\$ 241,295.57	\$ 51,048.31	\$ 560,000.00	\$111,102.50
2018	248,738.15	43,605.73	570,000.00	97,662.50
2019	256,410.29	35,933.59	590,000.00	81,987.50
2020	264,238.08	28,105.80	605,000.00	64,287.50
2021	272,469.31	19,874.57	625,000.00	44,625.00
2022-2026	505,170.10	14,421.79	650,000.00	22,750.00
2027-2028				
Total	\$1,788,321.50	\$192,989.79	\$3,600,000.00	\$422,415.00

Fiscal Year Ending	Business-Type Activities				Total Principal and Interest Requirements
	Series 2015A Taxable Warrants		Series 2016A Taxable Warrants		
	Principal	Interest	Principal	Interest	
September 30, 2017	\$ 780,000.00	\$ 209,843.76	\$ 90,000.00	\$ 211,525.00	\$ 1,291,368.76
2018	810,000.00	186,443.76	85,000.00	209,725.00	1,291,168.76
2019	835,000.00	162,143.76	85,000.00	208,025.00	1,290,168.76
2020	855,000.00	137,093.76	90,000.00	206,325.00	1,288,418.76
2021	880,000.00	111,443.76	95,000.00	204,525.00	1,290,968.76
2022-2026	3,750,000.00	241,987.52	1,465,000.00	992,225.00	6,449,212.52
2027-2030			4,730,000.00	433,950.00	5,163,950.00
Total	\$7,910,000.00	\$1,048,956.32	\$6,640,000.00	\$2,466,300.00	\$18,065,256.32

**Notes to the Financial Statements**  
**For the Year Ended September 30, 2016**

Governmental Activities				Total Principal and Interest Requirements
Series 2013 General Obligation Warrants		Notes Payable		
Principal	Interest	Principal	Interest	
\$ 194,778.33	\$ 30,662.07	\$ 14,845.79	\$ 6,225.85	\$1,209,958.42
199,550.95	25,889.45	15,335.55	5,736.09	1,206,518.42
204,440.51	20,999.89	15,841.45	5,230.19	1,210,843.42
209,404.94	16,035.46	16,364.02	4,707.62	1,208,143.42
214,580.92	10,859.48	16,903.84	4,167.80	1,208,480.92
331,767.97	6,393.12	93,260.84	12,097.37	1,635,861.19
		25,777.34	562.03	26,339.37
<b>\$1,354,523.62</b>	<b>\$ 110,839.47</b>	<b>\$198,328.83</b>	<b>\$38,726.95</b>	<b>\$7,706,145.16</b>

**Deferred Charges on Refunding, Discounts and Premiums**

The Commission has deferred loss on refunding and discounts in connection with the issuance of its 2010-A Revenue Warrants and has premiums in connection with the issuance of its 2015 and 2016 Revenue Warrants in the business-type activities and Series 2010 General Obligation Refunding Warrants in the governmental activities. The deferred loss on refunding, discounts and premiums are being amortized using the straight-line method over the term of the related debt.

	Business-Type Activities		
	Deferred Loss on Refunding	Premiums	Discount
Total Deferred Loss on Refunding, Discount and Premiums	\$ 950,987.14	\$ 57,155.00	\$109,841.60
Amounts Amortized in Prior Years	(602,212.14)		(36,322.60)
Balance Deferred Loss on Refunding, Discount and Premiums	348,775.00	57,155.00	73,519.00
Current Year Additions	551,159.09	336,815.00	
Current Amount Amortized	(384,239.09)	(16,467.00)	(73,519.00)
Balance Deferred Loss on Refunding, Discount and Premiums	<b>\$ 515,695.00</b>	<b>\$377,503.00</b>	<b>\$</b>

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***Notes to the Financial Statements***  
***For the Year Ended September 30, 2016***

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**Defeased Debt**

The Commission entered into a Refunding Escrow Agreement dated March 24, 2016, with the Bank of New York Mellon Trust Company as trustee, and has deposited with the trustee funds sufficient to pay the advance refunded portion of the principal and interest on the Series 2010 Water Revenue Warrants when they are called on May 1, 2030. An analysis of the Escrow Fund for the year ended September 30, 2016, is as follows:

	Series 2010 Warrants
Deposits	\$7,684,560.00
Interest Earned	5,208.00
Total Available Funds	<u>7,689,768.00</u>
Disbursements:	
Interest Paid	30,000.00
Principal Paid	217,075.00
Total Disbursements	<u>247,075.00</u>
Balance – End of Year	<u>\$7,442,693.00</u>

As a result of refunding the Commission's Series 2010 Water Revenue Warrants, dated April 1, 2010, the Commission decreased its total debt service requirements by \$3,288,376.18, and the refunding resulted in an economic gain (the difference between the present value of the debt service payments on the old and new debt) of \$3,170,560.04.



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***Notes to the Financial Statements***  
***For the Year Ended September 30, 2016***

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**Prior Year Defeasance of Debt**

The Commission issued its Water Revenue Warrants, Series 2003, dated February 2003.

The Commission entered into a Refunding Escrow Agreement dated December 27, 2007 and January 10, 2008, with the Bank of New York Mellon Trust Company as trustee, and has deposited with the trustee, funds sufficient in amount to pay the advanced refunded portion of the principal and interest on the Series 2003 until they were called on May 1, 2016. An analysis of the Escrow Fund for the year ended September 30, 2016, is as follows:

	Series 2003 Warrants
Balance – Beginning of Year	\$284,144.00
Interest Earned	23,246.00
Total Available Funds	<u>307,390.00</u>
Disbursements:	
Interest Paid	12,390.00
Principal Paid	295,000.00
Total Disbursements	<u>307,390.00</u>
Balance – End of Year	<u>\$</u>

The defeased warrants listed above and the related trust account assets are not included in the Commission's statements.

The Series 2007 and 2008 Warrants were issued to advance refund \$5,960,000.00 of outstanding Series 2003 Water Revenue Warrants. The advance refunding resulted in a difference between the reacquisition price and the net carrying amount of the old debt of \$326,433. The difference, reported on the accompanying financial statements as a deduction from warrants payable, is being amortized evenly over the life of the Series 2007 and 2008 Warrants and is being charged to operations. The Commission completed the advance refunding to provide for construction of a facility for the Commission's Water Department and the Emergency Management Agency.

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## *Notes to the Financial Statements*

### *For the Year Ended September 30, 2016*

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#### **Note 9 – Pledged Revenues**

During the 2015 fiscal year, the Commission issued Taxable Water Revenue Warrants, Series 2015-A to refinance the Series 2005 and 2007 Water Revenue Warrants. The Commission pledged to repay the warrants from revenues derived from the operation of the County's water system. Future revenues of \$8,958,956.32 are pledged to repay the principal and interest on the warrants as of September 30, 2016. Operating revenues for fiscal year 2016 totaled \$10,312,766.00. Of these operating revenues, \$544,520.39 was used to pay principal and interest on the warrants. This amount represents 5.28% of pledged revenues received from the operation of the County's water system. The warrants will mature in 2025.

During the 2016 fiscal year, the Commission issued Taxable Water Revenue Warrants, Series 2016-A to refinance the Series 2010-A Water Revenue Warrants. The Commission pledged to repay the warrants from revenues derived from the operation of the County's water system. Future revenues of \$9,106,300.00 are pledged to repay the principal and interest on the warrants as of September 30, 2016. Operating revenues for fiscal year 2016 totaled \$10,312,766.00. Of these operating revenues, \$21,740.07 was used to pay interest on the warrants. The warrants will mature in 2030.

#### **Note 10 – Conduit Debt Obligations**

On February 1, 2008, the Cullman County Public Building Authority (PBA), which is a related organization of Cullman County, issued \$5,985,000.00 of Building Revenue Warrants (DHR Project), Series 2008 for the purpose of financing the acquisition, construction, and installation of an office building for use by the Cullman County Department of Human Resources. Simultaneously, with the issuance of the warrants, a lease agreement was executed between the PBA and Cullman County in addition to a sub-lease agreement between Cullman County and the State of Alabama, acting by and through its Department of Human Resources. The lease is limited obligation debt of the County and is payable solely from the revenues generated through the sub-lease agreement. The warrants and the lease do not constitute a debt or pledge of the faith and credit of the County and accordingly have not been reported in the accompanying financial statements. As of September 30, 2016, the outstanding balance of the lease is \$4,410,000.00.

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## *Notes to the Financial Statements*

### *For the Year Ended September 30, 2016*

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#### Note 11 – Risk Management

The Commission is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Commission has general liability insurance through the Association of County Commissions of Alabama (ACCA) Liability Self Insurance Fund, a public entity risk pool. The Fund is self-sustaining through member contributions. The Commission pays an annual premium based on the Commission’s exposure, individual claims experience and the experience of the Fund as a whole. Coverage is provided up to \$1,000,000 per claim for a maximum total coverage of \$3,000,000 and unlimited defense costs. Employment-related practices damage protection is limited to \$1,000,000 per incident with a \$5,000 deductible and unlimited defense costs. County specific coverages and limits can be added by endorsement.

The Commission has workers’ compensation insurance through the Association of County Commissions of Alabama (ACCA) Workers’ Compensation Self Insurance Fund, a public entity risk pool. The premium level for the Fund is calculated to adequately cover the anticipated losses and expenses of the Fund. Fund rates are calculated for each job class based on the current NCCI Alabama loss costs and a loss cost modifier to meet the required premiums of the Fund. Member premiums are then calculated on a rate per \$100 of estimated remuneration for each job class, which is adjusted by an experience modifier for the individual county. The Commission may qualify for additional discounts based on losses and premium size. Pool participants are eligible to receive refunds of unused premiums and the related investment earnings.

The Commission purchases commercial insurance for its other risks of loss, including property and casualty insurance and employee health insurance. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

The Commission is self-insured with regard to employee health insurance. The Commission retains the risk of loss of \$100,000 for specific stop loss per person per agreement year and \$1,000,000 Maximum Aggregate Stop Loss per agreement year. The Commission purchases insurance for claims in excess of specific and aggregate limits. An estimate of the claims liability is reported in the General Fund. These liabilities are based on estimates utilizing past experience.

Fiscal Year	Beginning of Fiscal Year Liability	Current Year Claims and Changes in Estimate	Claim Payments	Balance at Fiscal Year-End
2013-2014	\$348,600.00	\$4,895,232.18	\$4,821,252.98	\$422,579.20
2014-2015	\$422,579.20	\$5,069,858.54	\$4,964,757.74	\$527,680.00
2015-2016	\$527,680.00	\$5,569,219.55	\$5,527,005.15	\$569,894.40

Estimated Claims Costs Payable at September 30, 2016, also includes an administrative fee liability of \$46,094.40, for a total of \$569,894.40.

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***Notes to the Financial Statements***  
***For the Year Ended September 30, 2016***

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**Note 12 – Interfund Transactions**

**Interfund Transfers**

The amounts of interfund transfers during the fiscal year ending September 30, 2016, were as follows:

	Transfers Out		Totals
	General Fund	Other Governmental Funds	
<b>Transfers In:</b>			
Gasoline Tax Fund	\$1,172,690.13	\$	\$1,172,690.13
Other Governmental Funds	1,645,409.39	258,343.75	1,903,753.14
Other Enterprise Funds	1,015,675.71		1,015,675.71
<b>Totals</b>	<b>\$3,833,775.23</b>	<b>\$258,343.75</b>	<b>\$4,092,118.98</b>

The Commission typically used transfers to fund ongoing operating subsidies and to transfer the portion from the Road and Bridge and Judicial Jail Construction Funds to the Debt Service Funds to service current-year debt requirements.

**Note 13 – Joint Ventures**

The Cullman County Commission is involved in a joint venture with the City of Cullman. The entities each own a 50% share of an airport located in Cullman County. The airport provides services in the city and county. As of September 30, 2013, the operations of the airport are recorded as a separate entity. Only the equity share of Cullman County’s investment in the joint venture is shown on the financial statements. As of September 30, 2016, Cullman County’s investment in the joint venture was \$3,166,587.00. Records of the airport are maintained by personnel of the City of Cullman. Financial Statements of the airport may be obtained from the City of Cullman.

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***Notes to the Financial Statements***  
***For the Year Ended September 30, 2016***

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**Note 14 – Related Organizations**

The following organizations were considered related organizations because a majority of the respective members of boards are appointed by the Cullman County Commission. The Commission, however, is not financially accountable, because it does not impose its will and have a financial benefit or burden relationship, for the organizations and the organizations are not considered part of the Commission's financial reporting entity. The organizations are considered a related organization of the County Commission.

- ◆ Cullman County Center for the Developmentally Disabled
- ◆ Department of Human Resources Board
- ◆ E-911 Board of Commissioners
- ◆ Health Care Authority Board
- ◆ Industrial Development Board
- ◆ Cullman Area Mental Health Authority
- ◆ Solid Waste Authority
- ◆ Tennessee Valley Rehabilitation Board
- ◆ Walter Water Authority
- ◆ Cullman County Building Authority
- ◆ Cullman County Public Library

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*Required Supplementary Information*

## ***Schedule of Changes in the Net Pension Liability***

### ***For the Year Ended September 30, 2016***

	2016	2015
<b><u>Total pension liability</u></b>		
Service cost	\$ 1,355,938	\$ 1,315,634
Interest	3,672,474	3,487,843
Differences between expected and actual experience	421,106	
Benefit payments, including refunds of employee contributions	<u>(2,544,867)</u>	<u>(2,446,313)</u>
Net change in total pension liability	2,904,651	2,357,164
Total pension liability - beginning	<u>47,178,355</u>	<u>44,821,191</u>
Total pension liability - ending (a)	<u><u>\$ 50,083,006</u></u>	<u><u>\$ 47,178,355</u></u>
<b><u>Plan fiduciary net position</u></b>		
Contributions - employer	\$ 1,293,481	\$ 1,246,489
Contributions - employee	958,127	828,872
Net investment income	435,914	3,960,786
Benefit payments, including refunds of employee contributions	(2,544,867)	(2,446,313)
Other (Transfers among employers)	<u>220,801</u>	<u>(12,446)</u>
Net change in plan fiduciary net position	363,456	3,577,388
Plan fiduciary net positions - beginning	<u>36,779,505</u>	<u>33,202,117</u>
Plan fiduciary net positions - ending (b)	<u><u>\$ 37,142,961</u></u>	<u><u>\$ 36,779,505</u></u>
Commission's net pension liability - ending (a) - (b)	\$ 12,940,045	\$ 10,398,580
Plan fiduciary net position as a percentage of the total pension liability	74.16%	77.96%
Covered-employee payroll (*)	\$ 16,534,043	\$ 15,506,812
Commission's net pension liability as a percentage of covered-employee payroll	78.26%	67.06%

(\*) Employer's covered-employee payroll during the measurement period is the total payroll paid to covered employees (not just pensionable payroll). For fiscal year 2016, the measurement period is October 1, 2014 through September 30, 2015.

This schedule is intended to show information for 10 years. Additional years will be displayed as they become available.



***Schedule of the Employer's Contributions  
For the Year Ended September 30, 2016***

	2016	2015	2014
Actuarially determined contribution	\$ 1,419,416	\$ 1,344,864	\$ 1,246,489
Contributions in relation to the actuarially determined contribution	<u>\$ 1,419,416</u>	<u>\$ 1,344,864</u>	<u>\$ 1,246,489</u>
Contribution deficiency (excess)	\$	\$	\$
Covered-employee payroll	\$ 16,781,001	\$ 16,534,043	\$ 15,506,812
Contributions as a percentage of covered-employee payroll	8.46%	8.13%	8.04%

**Notes to Schedule**

Valuation date:

Actuarially determined contribution rates are calculated as of September 30, two years prior to the end of the fiscal year in which contributions are reported. Contributions for fiscal year 2016 were based on the September 30, 2013 actuarial valuation.

Methods and assumptions used to determine contribution rates:

Actuarial cost method	Entry Age
Amortization method	Level percent closed
Remaining amortization period	30 years
Asset valuation method	Five year smoothed market
Inflation	3%
Salary increases	3.75 - 7.25%, including inflation
Investment rate of return	8%, net of pension plan investment expense, including inflation

This schedule is intended to show information for 10 years. Additional years will be displayed as they become available.

***Schedule of Revenues, Expenditures and Changes in Fund Balances***  
***Budget and Actual - General Fund***  
***For the Year Ended September 30, 2016***

	Budgeted Amounts		Actual Amounts Budgetary Basis
	Original	Final	
<b>Revenues</b>			
Taxes	\$ 14,406,201.78	\$ 14,406,201.78	\$ 15,419,899.41
License and Permits	80,000.00	80,000.00	84,395.67
Intergovernmental	2,055,710.07	2,055,710.07	1,848,264.93
Charges for Services	2,372,787.80	2,372,787.80	2,527,816.49
Miscellaneous	715,297.09	715,297.09	913,310.58
Total Revenues	<u>19,629,996.74</u>	<u>19,629,996.74</u>	<u>20,793,687.08</u>
<b>Expenditures</b>			
Current:			
General Government	5,942,340.05	5,942,340.05	5,928,573.03
Public Safety	10,244,813.14	10,244,813.14	10,707,639.91
Health	534,545.55	534,545.55	482,907.78
Welfare	86,500.00	86,500.00	86,466.74
Culture and Recreation	317,687.25	317,687.25	331,430.65
Education	224,100.00	224,100.00	193,858.66
Capital Outlay			76,289.50
Total Expenditures	<u>17,349,985.99</u>	<u>17,349,985.99</u>	<u>17,807,166.27</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>2,280,010.75</u>	<u>2,280,010.75</u>	<u>2,986,520.81</u>
<b>Other Financing Sources (Uses)</b>			
Proceeds from Sale of Capital Assets			46,050.42
Transfers In			
Transfers Out	(2,236,117.12)	(2,236,117.12)	(2,795,284.82)
Total Other Financing Sources (Uses)	<u>(2,236,117.12)</u>	<u>(2,236,117.12)</u>	<u>(2,749,234.40)</u>
Net Changes in Fund Balances	43,893.63	43,893.63	237,286.41
Fund Balances - Beginning of Year	<u>2,872.00</u>	<u>2,872.00</u>	<u>12,597,115.55</u>
Fund Balances - End of Year	<u>\$ 46,765.63</u>	<u>\$ 46,765.63</u>	<u>\$ 12,834,401.96</u>

	<b>Budget to GAAP Differences</b>	<b>Actual Amounts GAAP Basis</b>
(1)	\$ 2,052,806.53	\$ 17,472,705.94
		84,395.67
(1)	111,871.40	1,960,136.33
(1)	182,068.42	2,709,884.91
(1)	99,168.76	1,012,479.34
	2,445,915.11	23,239,602.19
(2)	331,414.31	6,259,987.34
(2)	184,853.42	10,892,493.33
		482,907.78
(2)	768,778.66	855,245.40
		331,430.65
		193,858.66
		76,289.50
	1,285,046.39	19,092,212.66
	1,160,868.72	4,147,389.53
		46,050.42
(3)	(1,038,490.41)	(3,833,775.23)
	(1,038,490.41)	(3,787,724.81)
	122,378.31	359,664.72
(4)	(1,135,220.48)	11,461,895.07
	\$ (1,012,842.17)	\$ 11,821,559.79

***Schedule of Revenues, Expenditures and Changes in Fund Balances  
Budget and Actual - General Fund  
For the Year Ended September 30, 2016***

**Explanation of differences:**

Some amounts are combined with the General Fund for reporting purposes, but are budgeted separately.

(1) Revenues		
Aging Fund	\$	75,848.30
Road and Bridge Fund		2,111,211.30
AOA Fund		64,287.09
Work Release Fund		182,068.42
Industrial Development Fund		<u>12,500.00</u>
(2) Expenditures		
Aging Fund	\$	(42,867.85)
AOA Fund		(725,910.81)
Work Release Fund		(184,853.42)
Industrial Development Fund		<u>(331,414.31)</u>
(3) Other Financing Sources/(Uses), Net		
Aging Fund	\$	662,388.00
Road and Bridge Fund		(1,988,801.41)
AOA Fund		(30,000.00)
Industrial Development Fund		<u>317,923.00</u>

Net Increase in Fund Balance - Budget to GAAP

- (4) The amount reported as "fund balance" on the budgetary basis of accounting derives from the basis of accounting used in preparing the Commission's budget. This amount differs from the fund balance reported in the Statement of Revenues, Expenditures and Changes in Fund Balances because of the effect of transactions such as those described above.

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\$ 2,445,915.11

(1,285,046.39)

(1,038,490.41)

\$ 122,378.31

***Schedule of Revenues, Expenditures and Changes in Fund Balances  
Budget and Actual - Gasoline Tax Fund  
For the Year Ended September 30, 2016***

	Budgeted Amounts		Actual Amounts Budgetary Basis
	Original	Final	
<b>Revenues</b>			
Taxes	\$ 1,495,000.00	\$ 1,495,000.00	\$ 1,737,231.71
Intergovernmental	3,555,150.00	3,555,150.00	3,429,930.57
Charges for Services	813,500.00	813,500.00	856,339.57
Miscellaneous			10,200.37
Total Revenues	<u>5,863,650.00</u>	<u>5,863,650.00</u>	<u>6,033,702.22</u>
<b>Expenditures</b>			
Current:			
Highways and Roads	6,903,750.00	6,903,750.00	7,793,136.96
Capital Outlay	490,000.00	490,000.00	1,557,119.69
Total Expenditures	<u>7,393,750.00</u>	<u>7,393,750.00</u>	<u>9,350,256.65</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>(1,530,100.00)</u>	<u>(1,530,100.00)</u>	<u>(3,316,554.43)</u>
<b>Other Financing Sources (Uses)</b>			
Proceeds from Sale of Capital Assets			885,360.02
Transfers In	1,130,100.00	1,130,100.00	1,172,690.13
Transfers Out			473,313.32
Total Other Financing Sources (Uses)	<u>1,130,100.00</u>	<u>1,130,100.00</u>	<u>2,531,363.47</u>
Net Changes in Fund Balances	(400,000.00)	(400,000.00)	(785,190.96)
Fund Balances - Beginning of Year	<u>400,000.00</u>	<u>400,000.00</u>	<u>1,438,728.65</u>
Fund Balances - End of Year	<u>\$</u>	<u>\$</u>	<u>\$ 653,537.69</u>

	<b>Budget to GAAP Differences</b>	<b>Actual Amounts GAAP Basis</b>
	\$	\$
(1)	497,104.93	1,737,231.71
		3,927,035.50
		856,339.57
		10,200.37
	<u>497,104.93</u>	<u>6,530,807.15</u>
		7,793,136.96
		<u>1,557,119.69</u>
		<u>9,350,256.65</u>
	<u>497,104.93</u>	<u>(2,819,449.50)</u>
		885,360.02
		1,172,690.13
(2)	<u>(473,313.32)</u>	<u>2,058,050.15</u>
	23,791.61	(761,399.35)
(3)	<u>52,559.47</u>	<u>1,491,288.12</u>
	<u>\$ 76,351.08</u>	<u>\$ 729,888.77</u>

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***Schedule of Revenues, Expenditures and Changes in Fund Balances  
Budget and Actual - Gasoline Tax Fund  
For the Year Ended September 30, 2016***

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**Explanation of differences:**

Some amounts are combined with the Gasoline Tax Fund for reporting purposes, but are budgeted separately.

(1) Revenues	
Public Highway and Traffic Fund	<u>\$ 497,104.93</u>
(2) Other Financing Sources/(Uses), Net	
Public Highway and Traffic Fund	<u>\$ (473,313.32)</u>

Net Increase in Fund Balance - Budget to GAAP

- (3) The amount reported as "fund balance" on the budgetary basis of accounting derives from the basis of accounting used in preparing the Commission's budget. This amount differs from the fund balance reported in the Statement of Revenues, Expenditures and Changes in Fund Balances because of the effect of transactions such as those described above.



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\$ 497,104.93

(473,313.32)

\$ 23,791.61

***Schedule of Revenues, Expenditures and Changes in Fund Balances  
Budget and Actual - Reappraisal Fund  
For the Year Ended September 30, 2016***

	Budgeted Amounts		Actual Amounts Budgetary Basis
	Original	Final	
<b>Revenues</b>			
Taxes	\$ 1,450,949.58	\$ 1,450,949.58	\$ 1,156,291.73
Miscellaneous			1,315.08
Total Revenues	1,450,949.58	1,450,949.58	1,157,606.81
<b>Expenditures</b>			
Current:			
General Government	1,460,949.58	1,460,949.58	1,157,606.81
Capital Outlay	50,000.00	50,000.00	
Total Expenditures	1,510,949.58	1,510,949.58	1,157,606.81
Excess (Deficiency) of Revenues Over Expenditures	(60,000.00)	(60,000.00)	
Net Changes in Fund Balances	(60,000.00)	(60,000.00)	
Fund Balances - Beginning of Year	60,000.00	60,000.00	
Fund Balances - End of Year	\$	\$	\$

Budget to GAAP Differences	Actual Amounts GAAP Basis
\$	\$ 1,156,291.73
	1,315.08
	<u>1,157,606.81</u>
	1,157,606.81
	<u>1,157,606.81</u>
<u>\$</u>	<u>\$</u>

***Schedule of Funding Progress  
Other Postemployment Benefits  
For the Year Ended September 30, 2016***

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) Projected Unit Credit (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll [(b-a)/c]
09/30/2016*	\$0	\$19,975,475	\$19,975,475	0%	\$16,598,665	120.34%
09/30/2014*	\$0	\$16,591,500	\$16,591,500	0%	\$15,474,445	107.22%
09/30/2012	\$0	\$15,039,821	\$15,039,821	0%	\$13,347,858	112.68%

\* Includes the updated actuarial assumptions and plan design based on the introduction of a new tier of membership for those hired on or after January 1, 2013.

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*Supplementary Information*

***Schedule of Expenditures of Federal Awards  
For the Year Ended September 30, 2016***

Federal Grantor/ Pass-Through Grantor/ Program Title	Federal CFDA Number
<b><u>U. S. Department of Housing and Urban Development</u></b>	
<b><u>Passed Through Alabama Department of</u></b>	
<b><u>Economic and Community Affairs</u></b>	
Hurricane Sandy Community Development Block Grant Disaster Recovery Grants (M)	14.269
<b><u>U. S. Department of Justice</u></b>	
<b><u>Direct Program</u></b>	
Law Enforcement Assistance - Narcotics and Dangerous Drugs Training	16.004
<b><u>U. S. Department of Transportation</u></b>	
<b><u>Passed Through Alabama Department of</u></b>	
<b><u>Economic and Community Affairs</u></b>	
Recreational Trails Program	20.219
Recreational Trails Program	20.219
Sub-Total Recreational Trails Program Grant	
<b><u>Passed Through Alabama Department of Transportation</u></b>	
Formula Grants for Rural Areas (M)	20.509
Total U. S. Department of Transportation	
<b><u>U. S. General Services Administration</u></b>	
<b><u>Passed Through Alabama Department of</u></b>	
<b><u>Economic and Community Affairs</u></b>	
Donation of Federal Surplus Personal Property (N)	39.003
<b><u>U. S. Department of Health and Human Services</u></b>	
<b><u>Passed Through North-Central Alabama Regional</u></b>	
<b><u>Council of Governments (NARCOG)</u></b>	
Special Programs for the Aging:	
Title III, Part B - Grants for Supportive Services and Senior Centers	93.044
<b><u>Passed Through Alabama Department of Public Health</u></b>	
National Bioterrorism Hospital Preparedness Program	93.889
Total U. S. Department of Health and Human Services	
Sub-Total Brought Forward	

Pass-Through Grantor's Number	Expenditures
DTR-13-17	\$ 209,894.04
N/A	1,362.68
13-RT-55-03	42,584.00
14-RT-54-07	8,745.00
	<u>51,329.00</u>
N/A	703,513.00
	<u>754,842.00</u>
N/A	138,845.29
N/A	45,250.00
CEP-39-QW5-15	28,997.39
	<u>74,247.39</u>
	\$ 1,179,191.40

***Schedule of Expenditures of Federal Awards  
For the Year Ended September 30, 2016***

Federal Grantor/ Pass-Through Grantor/ Program Title	Federal CFDA Number
Sub-Total Brought Forward	
<b><u>U. S. Department of Homeland Security</u></b>	
<b><u>Passed Through Alabama Emergency Management Agency</u></b>	
Disaster Grants - Public Assistance (Presidentially Declared Disasters)	97.036
Hazard Mitigation Grant	97.039
Hazard Mitigation Grant	97.039
Hazard Mitigation Grant	97.039
Hazard Mitigation Grant	97.039
Hazard Mitigation Grant	97.039
Hazard Mitigation Grant	97.039
Sub-Total Hazard Mitigation Grant	
Emergency Management Performance Grants	97.042
Emergency Management Performance Grants	97.042
Emergency Management Performance Grants	97.042
Sub-Total Emergency Management Performance Grants	
Homeland Security Grant Program	97.067
Total U. S. Department of Homeland Security	
Total Expenditures of Federal Awards	

(M) = Major Program  
(N) = Noncash Assistance  
N/A = Not Available or Not Applicable

The accompanying Notes to the Schedule of Expenditures of Federal Awards are an integral part of this schedule.



<b>Pass-Through Grantor's Number</b>	<b>Expenditures</b>
	\$ 1,179,191.40
FEMA-4251-PA-AL	610,771.06
DR-1971-596	1,823.95
DR-1971-665	31,827.47
DR-1971-669	41,719.14
DR-1971-670	49,946.62
DR-1971-671	116,948.92
DR-1971-672	54,784.31
	<u>297,050.41</u>
5EMS	10,673.00
16EMF	42,572.00
16EMS	12,000.00
	<u>65,245.00</u>
4FIL	23,148.69
	<u>996,215.16</u>
	<u><u>\$ 2,175,406.56</u></u>

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***Notes to the Schedule of Expenditures  
of Federal Awards  
For the Year Ended September 30, 2016***

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**Note 1 – Basis of Presentation**

The accompanying Schedule of Expenditures of Federal Awards (the “Schedule”) includes the federal grant activity of the Cullman County Commission and is presented on the modified accrual basis of accounting. The information in this Schedule is presented in accordance with the requirements of Title 2 U. S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles and Audit Requirements for Federal Awards (Uniform Guidance)* and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Because the Schedule presents only a selected portion of the operations of the Cullman County Commission, it is not intended to and does not present the financial position, changes in net position, or cash flows of the Cullman County Commission.

**Note 2 – Summary of Significant Accounting Policies**

Expenditures reported on the Schedule are reported on the modified accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the *Uniform Guidance* wherein certain types of expenditures are not allowable or are limited as to reimbursement. The Cullman County Commission has elected not to use the 10-percent de minimis cost rate as allowed in the *Uniform Guidance*.

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## *Additional Information*

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***Commission Members and Administrative Personnel***  
***October 1, 2015 through September 30, 2016***

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**Commission Members** **Term Expires**

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Hon. Kenneth Walker	Chairman	2020
Hon. Kerry Watson	Associate Commissioner	2018
Hon. Garry Marchman	Associate Commissioner	2018

**Administrative Personnel**

Mr. Gary Teichmiller	Administrator	Indefinite
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***Report on Internal Control Over Financial Reporting and on  
Compliance and Other Matters Based on an Audit of  
Financial Statements Performed in Accordance With  
Government Auditing Standards***

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**Independent Auditor's Report**

Members of the Cullman County Commission and County Administrator  
Cullman, Alabama

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in ***Government Auditing Standards*** issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Cullman County Commission as of and for the year ended September 30, 2016, and the related notes to the financial statements, which collectively comprise the Cullman County Commission's basic financial statements and have issued our report thereon dated April 27, 2018. Our report includes a reference to other auditors who audited the financial statements of the Cullman County Water Fund, as described in our report on the Cullman County Commission's financial statements. This report does not include the results of the other auditors' testing of internal control over financial reporting or compliance and other matters that are reported on separately by those auditors.

We did not audit the financial statements of the Cullman County Water Fund, which represents 78%, 73% and 62% respectively of the assets, net position and revenues of the Enterprise funds and business-type activities. Those financial statements were audited by other auditors in accordance with ***Governmental Auditing Standards*** and whose report has been furnished to us. This report does not include the results of those auditors' testing of internal controls over financial reporting or compliance and other matters that are reported separately by those auditors.

**Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the Cullman County Commission's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Cullman County Commission's internal control. Accordingly, we do not express an opinion on the effectiveness of the Cullman County Commission's internal control.

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***Report on Internal Control Over Financial Reporting and on  
Compliance and Other Matters Based on an Audit of  
Financial Statements Performed in Accordance With  
Government Auditing Standards***

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A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit, we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

***Compliance and Other Matters***

As part of obtaining reasonable assurance about whether the Cullman County Commission's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

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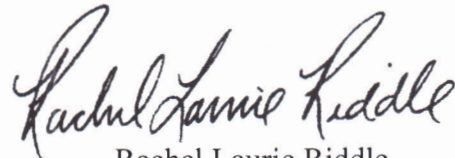
***Report on Internal Control Over Financial Reporting and on  
Compliance and Other Matters Based on an Audit of  
Financial Statements Performed in Accordance With  
Government Auditing Standards***

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**Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with ***Government Auditing Standards*** in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



Rachel Laurie Riddle  
Chief Examiner

Department of Examiners of Public Accounts

Montgomery, Alabama

April 27, 2018

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***Report on Compliance for Each Major Federal Program and  
Report on Internal Control Over Compliance Required  
by the Uniform Guidance and OMB Circular A-133***

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***Independent Auditor's Report***

Members of the Cullman County Commission and County Administrator  
Cullman, Alabama

***Report on Compliance for Each Major Federal Program***

We have audited the Cullman County Commission's compliance with the types of compliance requirements described in the ***OMB Compliance Supplement*** that could have a direct and material effect on each of the Cullman County Commission's major federal programs for the year ended September 30, 2016. The Cullman County Commission's major federal programs are identified in the Summary of Examiner's Results Section of the accompanying Schedule of Findings and Questioned Costs.

***Management's Responsibility***

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

***Auditor's Responsibility***

Our responsibility is to express an opinion on compliance for each of the Cullman County Commission's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in ***Government Auditing Standards***, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U. S. ***Code of Federal Regulations*** Part 200, ***Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance)*** and OMB Circular A-133, ***Audits of States, Local Governments, and Non-Profit Organizations***. Those standards and the ***Uniform Guidance*** and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Cullman County Commission's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the Cullman County Commission's compliance.



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***Report on Compliance for Each Major Federal Program and  
Report on Internal Control Over Compliance Required  
by the Uniform Guidance and OMB Circular A-133***

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***Opinion on Each Major Federal Program***

In our opinion, the Cullman County Commission complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended September 30, 2016.

***Report on Internal Control Over Compliance***

Management of the Cullman County Commission is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Cullman County Commission's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the *Uniform Guidance* and OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Cullman County Commission's internal control over compliance.

*A deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of the internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

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***Report on Compliance for Each Major Federal Program and  
Report on Internal Control Over Compliance Required  
by the Uniform Guidance and OMB Circular A-133***

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The purpose of this report on internal control over compliance is solely to describe the scope of our testing on internal control over compliance and the results of that testing based on the requirements of the *Uniform Guidance* and OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.



Rachel Laurie Riddle  
Chief Examiner

Department of Examiners of Public Accounts

Montgomery, Alabama

April 27, 2018

***Schedule of Findings and Questioned Costs***  
***For the Year Ended September 30, 2016***

**Section I – Summary of Examiner's Results**

**Financial Statements**

Type of opinion issued: Unmodified  
 Internal control over financial reporting:  
 Material weakness(es) identified? \_\_\_\_\_ Yes     X  No  
 Significant deficiency(ies) identified? \_\_\_\_\_ Yes     X  None reported  
 Noncompliance material to financial statements noted? \_\_\_\_\_ Yes     X  No

**Federal Awards**

Internal control over major programs:  
 Material weakness(es) identified? \_\_\_\_\_ Yes     X  No  
 Significant deficiency(ies) identified? \_\_\_\_\_ Yes     X  None reported  
 Type of auditor's report issued on compliance for major programs: Unmodified  
 Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a) of the *Uniform Guidance* or Section 510(a) of OMB Circular A-133? \_\_\_\_\_ Yes     X  No

Identification of major programs:

CFDA Numbers	Name of Federal Program or Cluster
20.509 14.269	Formula Grants for Rural Areas Hurricane Sandy Community Development Block Grant Disaster Recovery Grants

Dollar threshold used to distinguish between Type A and Type B programs: \$750,000.00  
 Auditee qualified as low-risk auditee? \_\_\_\_\_ Yes     X  No

***Schedule of Findings and Questioned Costs***  
***For the Year Ended September 30, 2016***

**Section II – Financial Statement Findings (GAGAS)**

Ref. No.	Type of Finding	Finding/Noncompliance	Questioned Costs
		No matters were reportable.	

**Section III – Federal Awards Findings and Questioned Costs**

Ref. No.	CFDA No.	Program	Finding/Noncompliance	Questioned Costs
			No matters were reportable.	